simple different
colorful smart
warm accessible
creative one touch
fresh optimistic
unexpected easy

Interim Report 2011

TCL Communication Technology Holdings Limited

Stock Code: 02618

创意感动生活
The Creative Life

TCL

simple different
colorful smart
warm accessible

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

creative one touch
fresh optimistic
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Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
Mr. WANG Jiyang
(Appointed on 9 May 2011)

Non-Executive Directors

Mr. BO Lianming
Mr. HUANG Xubin
Ms. XU Fang

Independent Non-Executive Directors

Mr. LAU Siu Ki
Mr. SHI Cuiming
(Resigned on 9 May 2011)
Mr. LOOK Andrew
Mr. LIU Chung Laung
(Resigned on 9 May 2011)
Mr. KWOK Hoi Sing
(Appointed on 9 May 2011)

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. SHI Cuiming
(Resigned on 9 May 2011)
Mr. BO Lianming
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
(Appointed on 9 May 2011)

REMUNERATION COMMITTEE

Mr. SHI Cuiming *(Chairman)*
(Resigned on 9 May 2011)
Mr. LAU Siu Ki
(Elected as Chairman on 5 August 2011)
Mr. BO Lianming
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
(Appointed on 9 May 2011)

COMPANY SECRETARY

Ms. PANG Siu Yin

AUTHORISED REPRESENTATIVES

Mr. GUO Aiping
Ms. PANG Siu Yin

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Level 9, HSBC Main Building
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

Corporate Information

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

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

PRINCIPAL SHARE REGISTRAR
Butterfield Fulcrum Group (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
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Wanchai
Hong Kong

REGISTERED OFFICE
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Hutchins Drive
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Cayman Islands

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Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS
Hill and Knowlton Asia Limited
36th Floor, PCCW Tower
Taikoo Place, 979 King's Road, Quarry Bay
Hong Kong

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

WEBSITE
http://tclcom.tcl.com

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 2011, with comparative figures for the same period last year as follows and these interim condensed consolidated 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 2011

	Notes	**Six months ended 30 June 2011 (Unaudited) *HK$'000***	Six months ended 30 June 2010 (Unaudited) *HK$'000*	**Three months ended 30 June 2011 (Unaudited) *HK$'000***	Three months ended 30 June 2010 (Unaudited) *HK$'000*
REVENUE	3	**4,600,031**	3,451,764	**2,476,171**	1,977,615
Cost of sales		**(3,585,918)**	(2,727,430)	**(1,934,978)**	(1,545,568)
Gross profit		**1,014,113**	724,334	**541,193**	432,047
Other income and gains	3	**283,739**	143,874	**168,903**	110,472
Research and development costs		**(194,210)**	(141,257)	**(104,635)**	(83,170)
Selling and distribution costs		**(389,968)**	(235,941)	**(223,843)**	(126,254)
Administrative expenses		**(247,477)**	(186,499)	**(133,857)**	(109,654)
Other operating expenses		**(5,850)**	(1,947)	**(1,200)**	(1,549)
Finance costs	4	**(58,709)**	(24,217)	**(28,369)**	(15,991)
Share of losses of associates		**(1,010)**	(633)	**(518)**	(250)
Share of profit of a jointly-controlled entity		**–**	1,130	**–**	187
PROFIT BEFORE TAX	5	**400,628**	278,844	**217,674**	205,838
Income tax expense	6	**(9,195)**	(28,672)	**(6,445)**	(25,199)
PROFIT FOR THE PERIOD		**391,433**	250,172	**211,229**	180,639

INTERIM CONSOLIDATED INCOME STATEMENT (continued)

For the three months and six months ended 30 June 2011

	Notes	**Six months ended 30 June 2011 (Unaudited) HK$'000**	Six months ended 30 June 2010 (Unaudited) HK$'000	**Three months ended 30 June 2011 (Unaudited) HK$'000**	Three months ended 30 June 2010 (Unaudited) HK$'000
Attributable to:					
Owners of the parent		**391,335**	250,172	**211,218**	180,639
Non-controlling interests		**98**	–	**11**	–
		391,433	250,172	**211,229**	180,639
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	8				
Basic		**35.49**	23.30	**19.11**	16.82
Diluted		**34.13**	22.79	**18.42**	16.45

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2011

	Six months ended 30 June 2011 (Unaudited) *HK$'000*	Six months ended 30 June 2010 (Unaudited) *HK$'000*	**Three months ended 30 June 2011 (Unaudited) *HK$'000***	Three months ended 30 June 2010 (Unaudited) *HK$'000*
PROFIT FOR THE PERIOD	**391,433**	250,172	**211,229**	180,639
OTHER COMPREHENSIVE INCOME				
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the period	**(50,056)**	72,763	**(9,904)**	72,763
Reclassification adjustment for gains included in the consolidated income statement	**12,112**	(15,096)	**20,243**	(15,096)
Income tax effect	**(835)**	–	**(835)**	–
	(38,779)	57,667	**9,504**	57,667
Exchange differences on translation of foreign operations	**76,288**	(37,318)	**31,969**	(17,693)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**37,509**	20,349	**41,473**	39,974
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**428,942**	270,521	**252,702**	220,613
Attributable to:				
Owners of the parent	**428,844**	270,521	**252,720**	220,613
Non-controlling interests	**98**	–	**(18)**	–
	428,942	270,521	**252,702**	220,613

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	**30 June 2011 (Unaudited) *HK$'000***	31 December 2010 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**424,599**	309,116
Prepaid land lease payments		**12,804**	13,149
Intangible assets		**205,488**	106,120
Deferred tax assets		**47,078**	31,689
Goodwill		**384,186**	146,927
Investments in associates		**2,599**	7,323
Available-for-sale investments		**26,272**	20,245
Other non-current assets		**19,457**	–
Total non-current assets		**1,122,483**	634,569
CURRENT ASSETS			
Inventories		**1,093,365**	779,846
Trade receivables	9	**1,977,483**	2,535,372
Factored trade receivables		**230,863**	31,198
Notes receivable		**16,866**	7,091
Prepayments, deposits and other receivables		**606,286**	533,823
Due from related companies	19(b)	**12,873**	14,042
Tax recoverable		**12,308**	23
Derivative financial instruments		**153,618**	171,405
Pledged deposits	10	**6,998,044**	6,200,996
Cash and cash equivalents	10	**1,238,664**	1,345,283
Total current assets		**12,340,370**	11,619,079
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	11	**7,348,146**	6,487,946
Trade and notes payables	12	**1,508,539**	1,843,495
Bank advances on factored trade receivables		**230,863**	31,198
Derivative financial instruments		**125,360**	129,104
Tax payable		**8,740**	11,315
Other payables and accruals		**1,435,125**	1,214,315
Provision for warranties		**146,601**	127,547
Due to related companies	19(b)	**117,841**	169,041
Total current liabilities		**10,921,215**	10,013,961
NET CURRENT ASSETS		**1,419,155**	1,605,118
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,541,638**	2,239,687

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2011

	Notes	**30 June 2011 (Unaudited) *HK$'000***	31 December 2010 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,541,638**	2,239,687
NON-CURRENT LIABILITIES			
Retirement indemnities		**2,556**	2,351
Long service medals		**1,367**	1,275
Deferred tax liabilities		**27,851**	13,877
Total non-current liabilities		**31,774**	17,503
Net assets		**2,509,864**	2,222,184
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**1,109,148**	1,097,528
Shares held for Share Award Scheme		**(11,032)**	(11,032)
Reserves		**1,254,546**	947,145
Proposed dividends		**153,366**	184,805
		2,506,028	2,218,446
Non-controlling interests		**3,836**	3,738
Total equity		**2,509,864**	2,222,184

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the parent											
	Issued share capital	Share premium account	Shares held for Share Award Scheme	Awarded shares reserve	Share option reserve	Hedging reserve	Contributed surplus	Statutory reserves	Exchange fluctuation reserve	Proposed final dividends	Accumulated losses	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*
At 1 January 2010 (audited)	715,624	1,551,001	(27,784)	388	50,759	-	232,555	119,951	92,441	37,570	(1,677,804)	1,094,701
Profit for the period	-	-	-	-	-	-	-	-	-	-	250,172	250,172
Other comprehensive income for the period												
Cash flow hedges, net of tax	-	-	-	-	-	57,667	-	-	-	-	-	57,667
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(37,318)	-	-	(37,318)
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 arrangements	-	-	-	9,417	-	-	-	-	-	-	-	9,417
2009 final dividend declared	-	(405)	-	-	-	-	-	-	-	(37,570)	-	(37,975)
At 30 June 2010 (unaudited)	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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2011

	Attributable to owners of the parent												Non-controlling interests	Total equity
	Issued share capital	Share premium account	Shares held for Share Award Scheme	Awarded shares reserve	Share option reserve	Hedging reserve	Contributed surplus	Statutory reserves	Exchange fluctuation reserve	Proposed dividends	Retained profits	Total		
	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*
At 1 January 2011 (audited)	**1,097,528**	**232,602**	**(11,032)**	**1,499**	**56,653**	**47,935**	**232,555**	**191,425**	**131,870**	**184,805**	**52,606**	**2,218,446**	**3,738**	**2,222,184**
Profit for the period	-	-	-	-	-	-	-	-	-	-	391,335	391,335	98	391,433
Other comprehensive income for the period														
Cash flow hedges, net of tax	-	-	-	-	-	(38,779)	-	-	-	-	-	(38,779)	-	(38,779)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	76,288	-	-	76,288	-	76,288
Total comprehensive income for the period	-	-	-	-	-	(38,779)	-	-	76,288	-	391,335	428,844	98	428,942
Issue of shares and exercise of share options	11,620	30,057	-	-	(12,766)	-	-	-	-	-	-	28,911	-	28,911
Reclassification of lapsed share options	-	108	-	-	(108)	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	14,568	-	-	-	-	-	-	14,568	-	14,568
Share Award Scheme arrangements	-	-	-	694	-	-	-	-	-	-	-	694	-	694
2010 final dividend declared	-	(630)	-	-	-	-	-	-	-	(184,805)	-	(185,435)	-	(185,435)
Proposed 2011 interim dividend	-	(153,366)	-	-	-	-	-	-	-	153,366	-	-	-	-
At 30 June 2011 (unaudited)	**1,109,148**	**108,771***	**(11,032)**	**2,193***	**58,347***	**9,156***	**232,555***	**191,425***	**208,158***	**153,366**	**443,941***	**2,506,028**	**3,836**	**2,509,864**

* These reserve accounts comprise the consolidated reserves of approximately HK$1,254,546,000 (30 June 2010: HK$674,338,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Net cash inflow from operating activities	**205,759**	213,208
Net cash outflow used in investing activities	**(297,400)**	(77,047)
Net cash outflow used in financing activities	**(18,517)**	(302,903)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(110,158)**	(166,742)
Cash and cash equivalents at beginning of period	**1,345,283**	1,169,750
Effect of foreign exchange rate changes, net	**3,539**	(14,217)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,238,664**	988,791
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the statement of financial position	**1,238,664**	988,791

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated 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 2010. 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. They have been prepared under the historical cost convention, except for the Group's forward contracts, forward options and interest rate swap, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised HKFRSs and HKASs

HKAS 24 (Revised)	*Related Party Disclosures*
HK (IFRIC) – Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. While the adoption of the revised standard resulted in changes in the accounting policy, the revised standard does not have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

HK (IFRIC) – Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and results in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. While the adoption of the revised standard resulted in changes in the accounting policy, the revised standard did not have any financial impact on the Group.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Improvement to HKFRSs

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group has adopted the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has a significant financial impact on the Group. Those amendments that have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations:* Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations which acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their fair value on acquisition date, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements:* Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements:* Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Improvement to HKFRSs (continued)

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HK (IFRIC) – Int 14 Amendments	Amendments to HK (IFRIC) – Int 14 *Prepayments of a Minimum Funding Requirement*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*

2. OPERATING 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 other products. All of the Group's products are of a similar nature and subject to similar risk and returns.

Since other products do not have significant contribution towards turnover and net profit of the Group, the management does not organise business based on products. Therefore, the management does not report segments based on the products.

The management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit from operations, except for research and development costs.

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.

The geographical information of non-current assets is not reported as the necessary information is not available and the cost to develop it would be excessive.

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2011

	Overseas *HK$'000*	China *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	4,180,647	419,384	4,600,031
Intersegment sales	–	3,024,596	3,024,596
	4,180,647	3,443,980	7,624,627
Reconciliation:			
Elimination of intersegment sales			(3,024,596)
Revenue from operations			4,600,031
Segment results	590,767	4,071	594,838
Reconciliation:			
Research and development costs			(194,210)
Profit before tax			400,628
Other segment information:			
Share of losses of:			
Associates	–	(1,010)	(1,010)
Impairment loss of trade receivables	5,284	587	5,871
Depreciation of property, plant and equipment	30,635	4,014	34,649
Amortisation of computer software and intellectual property	4,097	342	4,439
Other non-cash expenses*	15,262	–	15,262
Prepaid land lease recognised	305	40	345
Capital expenditure**	114,539	16,725	131,264
Investments in associates	–	2,599	2,599

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2010 (restated)

	Overseas *HK$'000*	China *HK$'000*	Total *HK$'000*
Segment revenue:			
Sales to external customers	3,202,402	249,362	3,451,764
Intersegment sales	–	2,861,843	2,861,843
	3,202,402	3,111,205	6,313,607
Reconciliation:			
Elimination of intersegment sales			(2,861,843)
Revenue from operations			3,451,764
Segment results	418,914	1,187	420,101
Reconciliation:			
Research and development costs			(141,257)
Profit before tax			278,844
Other segment information:			
Share of profits and losses of:			
Associates	(12)	(621)	(633)
A jointly-controlled entity	–	1,130	1,130
Reversal of impairment loss of trade receivables and other receivables	(1,352)	–	(1,352)
Depreciation of property, plant and equipment	24,690	2,012	26,702
Amortisation of computer software and intellectual property	1,503	69	1,572
Other non-cash expenses*	23,067	–	23,067
Prepaid land lease recognised	340	26	366
Capital expenditure**	79,471	6,571	86,042
Investments in associates	–	8,036	8,036
Investment in a jointly-controlled entity	–	5,119	5,119

2. **OPERATING SEGMENT INFORMATION (continued)**

* Other non-cash expenses consist of expenses of Share Option Scheme and Share Award Scheme.

** Capital expenditure consists of additions to property, plant and equipment, intangible assets, but excludes additions of deferred development costs, and assets from acquisition of subsidiaries and a new business.

For the six months ended 30 June 2011, no revenue from single customer accounted for 10% or more of the total revenue of the Group.

For the six months ended 30 June 2010, revenue of approximately HK$419,748,000 was derived from sales by the overseas segment to a single customer, which accounted for 12% of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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. 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of mobile phones and other products	**4,600,031**	3,451,764
Other income and gains		
Interest income	**87,088**	27,441
Subsidy income	**9,365**	3,661
Value-added-tax ("VAT") refund*	**26,414**	25,706
Value-added service income	**3,482**	638
Exchange gain, net	**150,265**	83,300
Including: exchange (loss)/gain on derivative financial instruments	**(177)**	60,714
Gain on disposal of items of property, plant and equipment	**732**	540
Dividend income from an available-for-sale investment	**1,477**	–
Others	**4,916**	2,588
	283,739	143,874

* During the six months ended 30 June 2011 and 2010, JRD Communication (Shenzhen) Limited ("JRD Shenzhen") and JRD Communication Technology (Shanghai) Limited (newly designated as software enterprise in 2011) recognised VAT refunds, which was calculated 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, and other loans wholly repayable within one year	**58,357**	23,168
Interest on discounted notes and factored trade receivables*	**352**	1,049
Total finance costs	**58,709**	24,217

* The effective interest rate of factored trade receivables is 0.17% per month (six months ended 30 June 2010: 0.16%).

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**34,649**	26,702
Prepaid land lease recognised	**345**	366
Amortisation of computer software and intellectual property	**4,439**	1,572
Research and development costs:		
Deferred expenditure amortised	**44,462**	34,677
Current period expenditure	**149,748**	106,580
	194,210	141,257
Brand management fee/TCL Brand Common Fund/ALCATEL brand licence fee	**35,543**	752
Minimum lease payments under operating leases in respect of land and buildings	**22,652**	15,303
Provision/(reversal) of impairment loss of trade receivables	**5,871**	(1,303)
Reversal of impairment loss of other receivables	**–**	(49)
Gain on disposal of items of property, plant and equipment	**(732)**	(540)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
		(Restated)
Current:		
Charge for the period		
The PRC	**8,419**	4,111
Russia	**2,079**	124
(Overprovision)/underprovision in prior years	**(1,357)**	24,437
	9,141	28,672
Deferred	**54**	–
Tax charge for the period	**9,195**	28,672

No Hong Kong profits tax has been provided (six months ended 30 June 2010: Nil) since no assessable profit arose in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation for 2008 to 2010 and hence was subject to a national income tax rate of 15% from 2008 to 2010. In the current period, TCT Mobile is in the process of renewing its high technology enterprise accreditation and will be subject to the PRC corporate income tax rate of 15% after obtaining the confirmation from the authority. Profits tax arising from TCL Mobile in Mainland China has been provided as assessable income arose during the period (six month ended 30 June 2010: Nil).

According to the Corporate Income Tax Law of the PRC, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, was subject to the PRC corporate income tax rate of 25% for the year 2011 and 2010. In the current period, there was no profits tax arising from subsidiaries of Mobile Hohhot in Mainland China as no assessable income arose during the period (six months ended 30 June 2010: Nil).

6. INCOME TAX EXPENSE (continued)

According to the Corporate Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Shenzhen, a subsidiary of the Company in the PRC, was eligible for a "two-year exemption and three-year half reduction" tax holiday starting from its first profit-making year of 2006 being a newly established high technology software enterprise. Such tax holiday has expired in 2010. Meanwhile, JRD Shenzhen has obtained qualification of high technology enterprise with the effective period from November 2008 to November 2011. The applicable PRC corporate income tax rate of JRD Shenzhen was 15% for the period (six months ended 30 June 2010: 11%). Profits tax arising from JRD Shenzhen has been provided in Mainland China as assessable income arose during the period and the same period of 2010.

TMC Rus Limited Liability Company, a subsidiary of the Company in Russia, is subject to corporate income tax at a rate of 20% for the years 2011 and 2010. Russian profits tax has been provided during the period and the same period of 2010 as assessable income arose in Russia.

TCT Mobile, Inc., a subsidiary of the Company set up in the United States, is subject to the United States Federal tax rate of 35%, California State tax rate of 8.84% and New York State tax rate of 6.50% in 2011 and 2010. No profits tax arising from TCT Mobile, Inc as no assessable income arose during the period (six months ended 30 June 2010: Nil).

TCT Mobile Europe SAS, a subsidiary of the Company in France, is subject to a corporate income tax rate of 33.33% in 2011 and 2010. No French profit tax has been provided during the period (six months ended 30 June 2010: Nil) since TCT Mobile Europe SAS has available tax losses brought forward from prior years to offset the assessable profit arising in France during the period.

Since 2008, TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, was subject to Flat Rate Business Tax ("IETU") and income tax ("ISR"). IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. IETU 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 rate of IETU is 17.5% from the year 2010 onwards. ISR is calculated as a certain percentage of net tax income which is determined based on all revenues minus expenses (deductions) as defined by Income Tax Law. The ISR rate is 30% for the year 2011 (2010: 30%), and will remain at 30% in 2012 and 2013. In all case, the payment of IETU is required only to the extent that it exceeds the ISR for the same period. In the current period, no Mexico ISR or IETU has been provided (six months ended 30 June 2010: Nil) since no assessable income arose in Mexico.

TCT Mobile-Telefones LTDA, a subsidiary of the Company in Brazil, was subject to corporate income tax at a rate of 25% and social contribution tax at a rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 17 of Law #11.72 and Articles 228 of Decree #3.000 of Income Tax Regulation in Brazil. Brazilian profits tax has not been provided during the period since no assessable income arose in Brazil (six months ended 30 June 2010: Nil).

7. DIVIDENDS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Proposed interim – 13.8 HK cents per ordinary share (six months ended 30 June 2010: Nil)	**153,366**	–
Proposed special – Nil (six months ended 30 June 2010: 8.0 HK cents per ordinary share)	**–**	86,985
	153,366	86,985

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

The calculation of basic and diluted earnings per share is based on:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**391,335**	250,172

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

	Number of shares	
	2011	2010
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,102,510,331**	1,073,681,728
Effect of dilution – weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options and allotment and issuance of awarded shares	**44,024,358**	24,116,830
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**1,146,534,689**	1,097,798,558

The calculation of the diluted earnings per share for the six months ended 30 June 2011 and 2010 has taken into account the share options and awarded shares newly granted through allotment and issuance of shares at nil consideration outstanding during the period. Since the exercise price of share options during the period and the same period of 2010 was lower than the fair market value of the ordinary shares, the share options outstanding during the period and the same period of 2010 had a dilutive effect on the Company. Since the fair value at grant date of awarded shares newly granted through allotment and issuance of shares at nil consideration during the period was lower than the fair market value of the ordinary shares, the aforesaid newly granted awarded shares 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 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Within 3 months	**1,586,417**	2,191,030
4 to 12 months	**391,344**	348,874
Over 12 months	**28,863**	19,120
	2,006,624	2,559,024
Impairment	**(29,141)**	(23,652)
	1,977,483	2,535,372

The credit period is generally 60 to 90 days.

10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

As at 30 June 2011, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$7,625,806,000 (31 December 2010: HK$6,852,903,000). 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. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

Included in the Group's cash and bank balance are deposits of approximately HK$431,971,000 (31 December 2010: HK$639,185,000) placed with TCL Group Finance Corporation Co., Ltd., a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.5%~1.31% (31 December 2010: 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 2011		31 December 2010	
	Maturity (Year)	***HK$'000* (Unaudited)**	Maturity (Year)	*HK$'000* (Audited)
Finance lease payable		**–**	2011	1,092
Bank borrowings-secured*	**2011-2012**	**7,348,146**	2011	6,486,854
		7,348,146		6,487,946

* The Group's interest bearing bank borrowings are bank advance comprising (i) bank borrowings of approximately HK$6,947,500,000 (31 December 2010: HK$6,037,289,000) which are secured by the pledge of certain of the Group's time deposits; and (ii) bank borrowings of approximately HK$400,646,000 (31 December 2010: HK$449,565,000) which are guaranteed by the ultimate holding company.

The interest rate for bank borrowings secured were 0.81% – 3.53% (31 December 2010: 0.86% – 3.51%) per annum. The interest rate for current portion of finance lease payable was 6.76% in 2010.

HK$240,780,000 of secured bank borrowings was denominated in RMB (31 December 2010: HK$235,700,000) and others was denominated in US dollar.

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 as follows:

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Within 6 months	**1,488,923**	1,828,660
7 to 12 months	**6,942**	4,868
Over 12 months	**12,674**	9,967
	1,508,539	1,843,495

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

As at 30 June 2011, no trade and notes payables are secured by the pledged deposits (31 December 2010: HK$5,627,000).

13. SHARE CAPITAL

	Number of shares	Issued share capital HK$'000	Share premium HK$'000
Authorised:			
Ordinary shares of HK$1 each at 1 January 2010, 31 December 2010 and 30 June 2011	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
As at 1 January 2010	715,623,870	715,624	1,551,001
Share options exercised	24,092,191	24,092	57,629
Shares allotted and issued pursuant to the completion of rights issue offer	357,811,935	357,812	(4,323)
Reclassification of lapsed share options	–	–	1,236
Reclassification of vested shares	–	–	(746)
Transfer of share premium to retained profits	–	–	(1,100,000)
2009 final dividend declared	–	–	(405)
2010 special dividend declared	–	–	(86,985)
Proposed 2010 final dividend	–	–	(184,805)
As at 31 December 2010 and 1 January 2011	1,097,527,996	1,097,528	232,602
Share options exercised*	11,620,067	11,620	30,057
Reclassification of lapsed share options	–	–	108
2010 final dividend declared	–	–	(630)
Proposed 2011 interim dividend	–	–	(153,366)
As at 30 June 2011	1,109,148,063	1,109,148	108,771

* During the six months ended 30 June 2011, 11,620,067 share options were exercised at subscription prices ranging from HK$1.648 to HK$3.462 per share, resulting in the issue of 11,620,067 shares of HK$1 each for a total cash consideration of HK$28,911,000.

14. SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentives rewards for eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme 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 has contributed or may contribute to the Group. The share option scheme became effective on 13 September 2004 (the "Share Option Scheme") and, unless otherwise cancelled or amended, would 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 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 highest of: (i) the Stock Exchange closing price of the Company's shares on the date of 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 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.

On 3 May 2011, a maximum of 50,500,000 share options under the Share Option Scheme were offered to certain individuals respectively by the Company, among which a total of 12,000,000 options were accepted by and granted to the grantees. Further details of the said granted share options were set out in the announcements of the Company dated 3 May 2011 and 4 August 2011 respectively.

As at 30 June 2011, the Company had 81,091,920 outstanding share options under the Share Option Scheme. Further details of the Share Option Scheme are as follows:

14. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period:

Name or category of participant	At 1 January 2011	Granted during the period (Notes iii)	Exercised during the period	Lapsed during the period	Re-classified	At 30 June 2011	Date of grant	Exercise period (both dates inclusive) (Notes iii)	Exercise price (HK$)	Closing price immediately before the date of grant per share (HK$)
	Number of share options									
Directors										
Mr. LI Dongsheng	697,636	–	(697,636)	–	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	639,500	–	–	–	–	639,500	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	639,500	–	–	–	–	639,500	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	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 February 2011 to 24 May 2016	3.462	3.26
	–	1,547,368	–	–	–	1,547,368	3 May 2011	3 February 2012 to 2 May 2017	7.614	7.52
	8,390,888	1,547,368	(697,636)	–	–	9,240,620				
Mr. GUO Aiping	132,550	–	(132,000)	(550)	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	454,045	–	–	–	–	454,045	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	831,350	–	–	–	–	831,350	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	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 March 2010	11 December 2010 to 10 March 2016	3.020	2.68
	–	3,094,737	–	–	–	3,094,737	3 May 2011	3 February 2012 to 2 May 2017	7.614	7.52
	4,632,203	3,094,737	(132,000)	(550)	–	7,594,390				

14. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period: (continued)

Name or category of participant	Number of share options: At 1 January 2011	Granted during the period *(Note iii)*	Exercised during the period	Lapsed during the period	Re-classified	At 30 June 2011	Date of grant	Exercise period (both dates inclusive) *(Note iii)*	Exercise price *(HK$)*	Closing price immediately before the date of grant per share *(HK$)*
Directors (continued)										
Mr. WANG Jiyang *(Note i)*	–	–	(550)	–	550	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	–	–	(198,245)	–	198,245	–	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	–	–	(575,550)	–	575,550	–	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	–	–	(660,000)	–	1,980,000	1,320,000	11 March 2010	11 December 2010 to 10 March 2016	3.020	2.68
	–	–	(1,434,345)	–	2,754,345	1,320,000				
Mr. BO Lianming	645	–	(645)	–	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	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 February 2011 to 24 May 2016	3.462	3.26
	1,720,632	–	(645)	–	–	1,719,987				
Mr. HUANG Xubin	83,715	–	(83,715)	–	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	102,320	–	–	–	–	102,320	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	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 February 2011 to 24 May 2016	3.462	3.26
	1,535,841	–	(83,715)	–	–	1,452,126				

14. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period: (continued)

Name or category of participant	At 1 January 2011	Granted during the period (Note iii)	Exercised during the period	Lapsed during the period	Re-classified	At 30 June 2011	Date of grant	Exercise period (both dates inclusive) (Note iii)	Exercise price (HK$)	Closing price immediately before the date of grant per share (HK$)
	Number of share options									
Directors (continued)										
Ms. XU Fang	11,161	–	(11,161)	–	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	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 February 2011 to 24 May 2016	3.462	3.26
	1,104,528	–	(11,161)	–	–	1,093,367				
Mr. LAU Siu Ki	300,000	–	–	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	300,000	–	–	–	–	300,000				
Mr. SHI Cuiming (Note ii)	300,000	–	–	–	(300,000)	–	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	300,000	–	–	–	(300,000)	–				
Mr. LOOK Andrew	600,000	–	–	–	–	600,000	20 September 2010	20 June 2011 to 19 September 2016	4.580	4.38
	600,000	–	–	–	–	600,000				
Mr. LIU Chung Laung (Note ii)	300,000	–	–	–	(300,000)	–	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	300,000	–	–	–	(300,000)	–				
Sub-Total	18,884,092	4,642,105	(2,359,502)	(550)	2,154,345	23,320,490				

14. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period: (continued)

	Number of share options									
Name or category of participant	At 1 January 2011	Granted during the period *(Note iii)*	Exercised during the period	Lapsed during the period	Re-classified	At 30 June 2011	Date of grant	Exercise period (both dates inclusive) *(Note iii)*	Exercise price *(HK$)*	Closing price immediately before the date of grant per share *(HK$)*
Employees and those who have contributed or may contribute to the Group	2,759,632	-	(2,677,313)	(81,769)	(550)	-	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	4,932,293	-	(1,448,228)	(580)	(198,245)	3,285,240	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	9,042,602	-	(1,142,745)	(765)	(575,550)	7,323,542	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	19,260,271	-	(2,849,617)	(30,238)	-	16,380,416	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	20,240,334	-	(1,092,662)	(93,335)	(1,980,000)	17,074,337	11 March 2010	11 December 2010 to 10 March 2016	3.020	2.68
	5,800,000	-	(50,000)	-	600,000	6,350,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	-	7,357,895	-	-	-	7,357,895	3 May 2011	3 February 2012 to 2 May 2017	7.614	7.52
Sub-Total	62,035,132	7,357,895	(9,260,565)	(206,687)	(2,154,345)	57,771,430				
Total	80,919,224	12,000,000	(11,620,067)	(207,237)	-	81,091,920				

Notes:

i. Mr. WANG Jiyang was appointed as an executive Director on 9 May 2011 and his share options under the Share Option Scheme were re-classified under "Directors".

ii. Mr. SHI Cuiming and Mr. LIU Chung Laung resigned as independent non-executive Directors on 9 May 2011. The share options of Mr. SHI Cuiming and Mr. LIU Chung Laung under the Share Option Scheme were re-classified to "Employees and those who have contributed or may contribute to the Group".

14. SHARE OPTION SCHEME (continued)

Notes: (continued)

iii. On 3 May 2011, a maximum of 50,500,000 share options under the Share Option Scheme were offered by the Company, among which a total of 12,000,000 options were accepted by and granted to the grantees, with the exercise price of HK$7.614 per share. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 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. Among the options granted above, a total of 4,642,105 share options were granted to the Directors of the Company. Further details of the said share options were set out in the announcements of the Company dated 3 May 2011 and 4 August 2011.

iv. The weighted average share price at the date of exercise for share options exercised during the period under review was HK$7.27 per share (2010: HK$3.79).

v. The fair value of the options granted on 3 May 2011 totalled approximately HK$36,800,000. The following assumptions were used to derive the fair value, using a binomial model:

Options granted on 3 May 2011

		At grant date
(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

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.

BMI Appraisals Limited has been appointed to perform the valuation on the batch of share options granted on 3 May 2011.

15. SHARE AWARD SCHEME

The Share Award Scheme A adopted by the Company on 3 July 2007 was terminated on 23 October 2009, and the Board resolved to adopt another share award scheme, the Share Award Scheme B, on 11 March 2008. The Share Award Scheme B aims to provide incentives to employees and to retain and encourage 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. 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 the Share Award Scheme B, the Board may allot and issue shares as awarded shares and have the discretion to decide whether the awarded shares are to be purchased or subscribed.

During the year ended 31 December 2008, the trustee purchased 105,898,000 shares of the Company at a total cost (including related transaction costs) of approximately HK$33,469,000.

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.

On 3 May 2011, the Board offered a maximum of 11,500,000 awarded shares of the Company to be awarded to designated employees under the Share Award Scheme B, among which a total of 1,962,482 awarded shares were accepted by and granted to the awardees. The awarded shares granted above would be transferred to the employees by the trustee or through allotment and issuance of shares at nil consideration upon vesting between 3 May 2012 and 3 May 2014. Further details of the said awarded shares were set out in the announcements of the Company dated 3 May 2011 and 4 August 2011.

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.

15. SHARE AWARD SCHEME (continued)

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

Share Award Scheme B

	30 June 2011 Number of awarded shares
For the shares granted on 11 March 2010	
Outstanding as at 1 January 2011 and 30 June 2011	1,000,000
For the shares granted on 3 May 2011	
Outstanding as at 1 January 2011	–
Granted during the period	1,962,482
Outstanding as at 30 June 2011	1,962,482

The remaining vesting periods of the awarded shares outstanding as at 30 June 2011 are as follows:

	30 June 2011	
	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 2011 to 31 December 2012	1,000,000
For the shares granted on 3 May 2011		
Fair value of HK$7.10 per share	1 July 2011 to 3 May 2014	1,962,482

16. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities (31 December 2010: Nil).

17. CAPITAL COMMITMENTS

As at 30 June 2011, the capital commitments were as follows:

	30 June 2011 (Unaudited) ***HK$'000***	31 December 2010 (Audited) *HK$'000*
Property, plant and equipment		
Contracted but not provided for	**887**	4,177

18. BUSINESS COMBINATION

(a) Acquisition of subsidiaries

On 25 May 2011, the Group acquired 100% interest in Ningbo Mobiles Research & Development Hong Kong Limited and its wholly owned subsidiary Sagem Mobiles Research and Development (Ningbo) Co., Ltd. (collectively "Sagem R&D") from Mobiwire. Sagem R&D is engaged in research and development of hardware and software for mobile phone and relative electronic equipment. The purchase consideration for the acquisition was in the form of cash of Euro 11,000,000 (equivalent to approximately HK$123,220,000) and paid on 8 February 2011 and 14 February 2011 for Euro 2,000,000 (equivalent to approximately HK$22,404,000) and Euro 9,000,000 (equivalent to approximately HK$100,816,000) respectively.

18. BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries (continued)

The fair value of the identifiable assets and liabilities of Sagem R&D as at the date of consolidation were as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	23,325
Intangible assets	3,371
Trade receivables	20,477
Prepayments, deposits and other receivables	5,770
Tax recoverable	348
Deferred tax assets	1,557
Cash and cash equivalents	1,453
Trade payables	(20,315)
Other payables and accruals	(19,793)
Total identifiable net assets at fair value	16,193
Goodwill on acquisition	107,027
	123,220
Satisfied by	
Cash	123,220

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	(123,220)
Cash and bank balances acquired	1,453
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(121,767)

18. BUSINESS COMBINATION (continued)

(a) Acquisition of subsidiaries (continued)

Since its acquisition, Sagem R&D has no contribution to the Group's turnover and contributed expenses of HK$7,090,000 to the consolidated profit for the six months ended 30 June 2011.

Had the combination taken place at the beginning of the year, the profit of the Group for the period would have been HK$375,495,000.

(b) Acquisition of a new business

On 1 April 2011, the Group acquired fixed line telephone business ("Fixed Line Telephone Business") from TCL Communication Equipment (Huizhou) Co., Ltd. The purchase consideration for the acquisition was in the form of cash of RMB120,000,000 (equivalent to approximately HK$143,928,000) and paid on 29 April 2011.

The fair values of the identifiable assets and liabilities of Fixed Line Telephone Business as at the date of consolidation were as follows:

	Fair value recognised on acquisition *HK$'000*
Property, plant and equipment	2,496
Inventories	9,573
Prepayments, deposits and other receivables	1,627
Total identifiable net assets at fair value	13,696
Goodwill on acquisition	130,232
	143,928
Satisfied by	
Cash	143,928

18. BUSINESS COMBINATION (continued)

(b) Acquisition of a new business (continued)

An analysis of the cash flows in respect of the acquisition of a business is as follows:

	HK$'000
Cash consideration	(143,928)
Cash and bank balances acquired	–
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(143,928)

Since its acquisition, Fixed Line Telephone Business contributed turnover of HK$41,499,000 and profit of HK$129,000 to the Group for the six months ended 30 June 2011.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the period would have been HK$4,631,749,000 and HK$392,846,000 respectively.

By the six months ended 30 June 2011, the initial accounting for the acquisition of subsidiaries and a new business had been determined only provisionally because the fair values to be assigned to acquired identifiable assets, liabilities and contingent liabilities could be determined only provisionally.

19. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Transactions with the ultimate controlling shareholder		
Brand management fee/TCL Brand Common Fund	**3,816**	752
Fees and commission charges	**552**	–
Interest expenses	**–**	721
Purchase of raw materials*	**334,246**	315,703
Transactions with fellow subsidiaries		
Purchases of raw materials*	**124,197**	124,414
Interest income	**1,088**	667
Rental charges	**6,950**	3,795
Fees and commission charges	**21**	29
Sale of raw materials	**691**	219
Purchase of products	**50**	–
Sales of products	**1,804**	–
Value-added service income	**637**	–
Purchase of intangible assets	**7,102**	–
Purchase of fixed line telephone business	**143,928**	–
Transactions with a jointly-controlled entity		
Sales of products	**–**	10,331

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

19. 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 2011 (Unaudited) ***HK$'000***	31 December 2010 (Audited) *HK$'000*	**30 June 2011 (Unaudited)** ***HK$'000***	31 December 2010 (Audited) *HK$'000*
Ultimate controlling shareholder	**11,047**	11,785	**31,511**	21,377
Fellow subsidiaries	**1,826**	2,257	**86,330**	144,199
Associates	**–**	–	**–**	3,465
	12,873	14,042	**117,841**	169,041

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	
	2011 (Unaudited) ***HK$'000***	2010 (Unaudited) *HK$'000* (Restated)
Short term employee benefits	**13,047**	8,942
Post-employment benefits	**1,199**	717
Equity-settled share option and Share Award Scheme expenses	**8,811**	12,591
Total compensation paid to key management personnel	**23,057**	22,250

20. COMPARATIVE AMOUNTS

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

21. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim condensed consolidated financial statements were approved and authorised for issue by the Board on 8 August 2011.

Management Discussion and Analysis

OPERATIONAL HIGHLIGHTS

- Revenue in the first half of 2011 surged to HK$4.6 billion, approximately 33% higher compared to the same period of the previous year. Gross profit margin grew to 22% from 21% in the last corresponding period. Profit attributable to owners of the parent surged 56% year-on-year to HK$391 million. Basic earnings per share reached 35.49 HK cents (first half of 2010: 23.30 HK cents).

- Sales volume of handsets and other products in the first half of 2011 totaled 19.5 million units, representing an increase of 37% compared to the same period of the previous year.

- The impressive results were attributable to greater efforts in geographical expansion into new and high potential markets worldwide; the "Step-up" product strategy; enhanced brand building; and the complementary Original Design Manufacturing ("ODM") business strategy.

- Significant progress was made in the penetration into the PRC market, as well as emerging markets, and brand building was further strengthened in existing markets.

- The Board of Directors recommended an interim dividend of 13.8 HK cents per ordinary share (first half of 2010: special dividend of 8.0 HK cents), making a payout ratio of 39% of the profit attributable to owners of the parent during the period.

INDUSTRY OVERVIEW

The demand for handsets became flat in the second quarter of 2011 due to the impact of Japan earthquake on handset component supply shortage, the possibility of deepening European Debt Crisis as well as the traditional low season quarter effect. It is expected that the smartphone market will continue its explosive growth in the second half of 2011, with a forecasted growth rate of 50%. According to the global market research firm, IDC, it does not expect feature phones to disappear quickly as there is still a strong demand across the globe. Although in mature markets, the transition from feature phones to smartphones has been accelerating, there is still strong demand for feature phones in emerging markets such as the Middle East, Africa and Latin America. As the first-tier handset manufacturers gradually shift their focus towards smartphones, other competitors may take the opportunity to gain market share in feature phone markets globally.

In view of the continuing trend of voice-data-video convergence and to further capture the strong demand for smartphones, handset manufacturers are moving up from low-end products to smartphones to improve profitability. The emergence of Android, which enables manufacturers to develop smartphones without committing many resources towards developing their own mobile operating systems, has further propelled the development of entry-level smartphones, and this in turn has stimulated more phone users to select smartphones in both mature and emerging markets. As a result, handset manufacturers are striving to maintain a balanced product portfolio of high-end and entry-level smartphones in order to increase their respective market shares.

In China, the handset market remains robust with mobile phone users reaching over 910 million as at the end of May 2011, according to the country's Ministry of Industry and Information Technology. Chinese handset manufacturers have stepped up their efforts in the development of smartphones and mid to high- end devices, hoping to reap the benefits from this fast-growing market. In addition, the Chinese government has emphasized its commitment on the development of the country's telecommunication infrastructure in its twelfth five-year plan and is going to invest RMB2 trillion in this regard. The government policy and financial input lend further support to the development of the industry.

Management Discussion and Analysis

BUSINESS REVIEW

The Group was able to sustain growth momentum for its handsets and other products sales volume throughout the first half of 2011 despite global economic volatility and the changing landscape of the industry. Significant progress was seen in sales and operational performances, which were mainly attributable to the Group's successful geographical expansion into new and high potential markets, combined with the successes Group successful "Step-up" product strategy, brand building efforts and ODM business development.

For the six months ended 30 June 2011, sales volume of handsets and other products totaled 19.5 million units, a 37% surge year-on-year. Sales volume in overseas markets reached 17.8 million units, a 38% increase over the corresponding period in 2010. Meanwhile, sales volume in the PRC market increased by 27% year-on-year to 1.7 million units.

The Group's revenue increased to HK$4,600 million, representing a 33% increase year-on-year. Average selling price slightly fell to US$30.3 from US$31.1 recorded in the last corresponding period. In addition, the Group's efforts in improving cost-control and enhancing product mix led to higher operational efficiency, driving the gross profit margin up to 22% from the 21% recorded in the corresponding period of 2010. Profit attributable to owners of the parent increased by 56% to HK$391 million. Basic earnings per share increased to 35.49 HK cents from 23.30 HK cents over the corresponding period of the previous year. The Board of Directors recommended an interim dividend of 13.8 HK cents per ordinary share, making a payout ratio of 39% of the profit attributable to owners of the parent during the period.

Looking at overseas markets, the Group continued to extend its reach to markets in the Americas, Europe, the Middle East, Africa and the Asia Pacific region by offering new entry-level Android and 3G products, which have consistently received positive feedback from the market. The Group's strong product development and marketing capabilities have increased its competitiveness in maintaining its market leadership in existing markets while strengthening its penetration into high potential markets, such as Brazil and southern part of Africa.

The Group further enhanced its PRC market penetration by launching products with special features and reaching its customers through the expending national distribution network. Having strong cooperative ties with the country's three main telecommunication operators and strategic partnerships with major online media enterprises, such as NetEase, Sohu and Baidu, the Group's products were well-received by the market, with its 3G smartphones achieving especially impressive growth.

BUSINESS REVIEW (continued)

Utilizing its proven "Step-up" product strategy, the Group has further enhanced its R&D and product design capabilities to consolidate its leadership in low to mid-end markets while achieving sound progress in its product development for mid to high-end markets. In February 2011, the Group unveiled its new ALCATEL ONE TOUCH brand and products at the Mobile World Congress in Barcelona, which were greeted positively both overseas and in the PRC. In June 2011, the Group opened the first shop in China offering users a range of online and offline interactive experiences to help accelerate the penetration of the ALCATEL ONE TOUCH brand in China's e-commerce market. In February and May 2011, Ningbo and Chengdu R&D Centers were established respectively to enhance in-house R&D capabilities and accelerate high-end smartphones development.

Furthermore, the Group achieved impressive results through its open-market development and further strengthened its ties with major distributors and retailers.

Sales volume breakdown by market

	Handsets and Other Products Unit Sales For the six months ended 30 June		
('000 units)	**2011**	2010	Change (%)
Overseas	**17,758**	12,899	+38%
The PRC	**1,693**	1,329	+27%
Total	**19,451**	14,228	+37%

Europe, the Middle East and Africa ("EMEA")

Shipments to EMEA in the first half of 2011 totaled to 7.3 million units, up 45% from the corresponding period of the previous year. Sales were mainly driven by the Group's outstanding performance in the open market, satisfactory sales of entry-level devices in Africa and robust sales of the ONE TOUCH 355 in Europe.

In the first half of 2011, the Group continued its expansion within the EMEA region, successfully expanding its market penetration into southern part of Africa and CIS countries and broadening customer base and distribution channels in Russia and southern part of Africa. To capitalize on the growing demand for smartphones throughout the EMEA region, the Group introduced new 3G Android products, including the ONE TOUCH 990 and the ONE TOUCH 908, during the period under review, on the heels of launching its first 3G Android smartphone, the ONE TOUCH 980, in September 2010.

BUSINESS REVIEW (continued)

Sales volume breakdown by market (continued)

Europe, the Middle East and Africa ("EMEA") (continued)

As a result of the positive market feedback with regard to these products, the Group will continue to secure its market leadership position while expanding quickly into new markets, such as Sweden, Denmark and Norway.

Americas

Shipments to the Americas grew to 9.4 million units during the period under review, representing an increase of 36% compared to the corresponding period of the previous year. This growth was mainly driven by the sales growth of handsets with special features that suited the demand of local customers. Successful sales of entry-level and Android-based 3G handsets, together with expanded sales channels and a widened customer base, also contributed to the improved performance.

The Group achieved growing sales in existing markets, such as Brazil (1,265% YoY), Argentina (287% YoY), Mexico (78% YoY), and successfully broadened in open market and explored distribution channels in new markets, such as Cuba and Venezuela. The Group will continue to dedicate its efforts in strengthening of its presence in these countries in the second half of the year. The Group believes that its focus on Android-based 3G products will help quickly enhance its brand popularity. The Group will also continue to explore opportunities to enter new markets.

Asia Pacific ("APAC")

In the first half of 2011, the sales volume across the APAC region surged 15% year-on-year to 1.1 million units, thanks to the Group's enhanced open-market development and its deeper low to mid-end product penetration. During the period under review, the Group successfully entered new markets, such as Bangladesh, and stepped up marketing initiatives in existing markets, like the Philippines, Vietnam, Singapore and India, to further intensify our penetration in those countries.

In the second half of 2011, the Group will further expand its customer base and sales channels while enhancing brand building efforts for its ALCATEL ONE TOUCH brand. New products with special features, such as Facebook, Yahoo messaging and email, will also be launched.

BUSINESS REVIEW (continued)

Sales volume breakdown by market (continued)

The PRC

Shipments to the PRC market grew to 1.7 million units during the period under review, representing an increase of 27% compared to the corresponding period of the previous year. During the period under review, the Group achieved breakthrough sales in many regions, including Beijing, Shanghai, Sichuan, Tianjin, Hubei, Jiangsu and Zhejiang, as a result of its robust cooperation with the country's three major telecommunication operators. The Group also bettered its product mix and widened its sales network by cooperating with distributors like Suning Appliance and Zhongyu Telecom and strengthening the sales performance of ALCATEL ONE TOUCH Flagship Store in the handset category of TaoBao Mall and 360Buy during the period under review, which helped to achieve impressive sales for its mid to high-end products, such as the TCL A906, a WCDMA-mode 3G Android smartphone developed in alliance with China Unicom. In June, the Group launched the first shop in China offering users a range of online and offline interactive experiences to accelerate the penetration of the ALCATEL ONE TOUCH brand in China's e-commerce market.

Going forward, the Group will further strengthen its standing in the e-commerce market and put more advertising and marketing resources on brand building in the PRC market. With opportunities continuously arising from the booming market for smartphones in the PRC, the Group plans to launch more quality products at attractive prices while stepping up its marketing initiatives.

Product Development

The Group remained committed to distinguishing itself through its product development capabilities in the first half of 2011. A total of 57 new models were launched during the period under review, which includes a number of 3G Android products such as ONE TOUCH 990, ONE TOUCH 908, ONE TOUCH 906, all of which have received positive market feedback and were selected by global mainstream telecommunications operators, including Orange, Vodafone, T-Mobile, Telefonica and America Movil. In April 2011, the Group entered into an alliance with China Unicom and launched a highly competitive WCDMA-mode 3G smartphone, TCL A906, in the PRC market, which is a major step forward in the Group's strategic development of 3G Android smartphones. The ONE TOUCH 803, a key product is popular among most key overseas operators; the ONE TOUCH 306, a ULC camera phone is popular among most key operators in emerging markets; the TCL i808, which enhances the user experience by incorporating basketball elements in its design and software, is the official phone of the China National Basketball Team as it offers an incomparable internet experience aiming at promoting Chinese basketball.

In addition, the enhanced design and quality of the Group's products were recognized by numerous prestigious industry awards during the period under review. In March 2011, the ONE TOUCH 818 and ONE TOUCH 355 PLAY won the Reddot Design Award: Product Design 2011, the highest honor for design and international recognition for the Group's excellence in creativity and design quality.

OUTLOOK

In the first half of 2011, the Group was able to sustain its growth momentum from 2010, achieving impressive progress in terms of product diversification, global market expansion and brand building. To achieve continued sustainable growth in future, the Group will continue to dedicate efforts in its proven "Step-up" product strategy to accommodate the global trend of the increasing convergence of voice, video and data technology. In view of the enormous potential on offer in the PRC and emerging markets, the Group plans to continue to strengthen its penetration in these regions while enhancing its leadership position in existing markets. The Group's sustainable competitive advantage of having strong R&D and design capabilities will continue to support its leadership position in the low-end handset market and further develop in the fast-growing mid to high-end market. Meanwhile, the Group will continue to strengthen its strategic alliances with major telecommunication operators worldwide while seizing opportunities arising from the open markets.

Product diversification will continue to be one of the pillars in the Group's long-term growth strategy towards being an industry leader. In the second half of 2011, the Group plans to launch 51 new models, including 3G Android smartphones and tablets, in order to strengthen its penetration into both low-end and mid to high-end markets. A new production plant, which will increase the Group's annual production capacity up to 130 million units, will also be constructed to ensure that the Group is well-equipped for sustainable future growth. With the rising demand for integrated products, cross-over products and one-stop services, the Group aims to enhance its design and manufacture capabilities to develop of wireless telecommunications equipment.

In the first half of 2011, 3G Android models (e.g. ONE TOUCH 990, ONE TOUCH 908, ONE TOUCH 906, etc) have been selected by global mainstream operators and distributors. We believe that our future products will be recognized by the market in a smooth and quicker way. In the remaining months of 2011, a series of 3G smartphones, which include ONE TOUCH 910, will be launched to further enhance the Group's presence in the mid to high-end market. The Group will also launch more new dual-SIM products to help its expansion into open markets, especially in the Americas, EMEA and APAC.

The Group reiterates its target sales volume for full year 2011 to be at 50 million units, representing a 39% increase year-on-year.

In overseas market, we expect strong momentum to be sustained in existing markets by gaining market share from competitors and successfully entering the new markets e.g. southern part of Africa. Besides, we have lined up with major operators and distributors in Brazil and the USA in order to strengthen the sales in the Americas.

Management Discussion and Analysis

OUTLOOK (continued)

The Group will continue its successful expansion in the PRC market by launching a series of 3G Android products including tablet in the second half of 2011, widening its sales channels, strengthening its cooperation with the country's three main telecommunication operators and conducting more marketing campaigns for smartphones. Furthermore, the Group plans to strengthen the market reach and established the brand profile of the ALCATEL ONE TOUCH brand in first-tier cities in the PRC. The overseas market will continue to be one of the Group's main drivers for sustainable development and its key revenue contributor. The sponsorship arrangement where the Group acted as one of the main official sponsors of Le Tour de France 2011, the world's premier annual cycling competition, further boosted the brand image of the ALCATEL ONE TOUCH brand.

Riding on its successful geographical expansion, combined with the success of its "Step-up" product strategy, brand building efforts and ODM development, the Group is well on track to meet its sales volume target and further its growth in the second half of the year.

FINANCIAL REVIEW

Results

For the six months ended 30 June 2011, the Group's unaudited consolidated revenue amounted to HK$4,600 million (six months ended 30 June 2010: HK$3,452 million), representing a year-on-year increase of 33% as compared to the same period last year.

Benefited from strong sales, improved operational efficiency and greater economies of scale, the Group's gross profit margin rose to 22% from 21% in the same period last year.

EBITDA and profit attributable to owners of the parent were HK$411 million and HK$391 million respectively (six months ended 30 June 2010: EBITDA and profit attributable to owners of the parent were HK$304 million and HK$250 million respectively). Basic earnings per share were 35.49 HK cents (six months ended 30 June 2010: 23.30 HK cents).

Inventory

For the current period, the Group's inventory turnover period was 51 days (six months ended 30 June 2010: 45 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivables (including trade receivables and factored trade receivables) turnover was 76 days for the current period (six months ended 30 June 2010 (restated): 68 days).

FINANCIAL REVIEW (continued)

Significant Investments and Acquisitions

On 1 April 2011, the Company acquired fixed line telephone business from TCL Communication Equipment (Huizhou) Co., Ltd. with aggregate purchase consideration of RMB 120 million (equivalent to approximately HK$144 million) which was satisfied in form of cash.

On 25 May 2011, the Company acquired 100% interest in Ningbo Mobiles Research & Development Hong Kong Limited and its wholly owned subsidiary Sagem Mobiles Research and Development (Ningbo) Co., Ltd. The aggregate purchase consideration of Euro 11 million (equivalent to approximately HK$123 million) which was satisfied in form of cash.

Except for the above acquisitions, there was no other significant investment and acquisition for the six months ended 30 June 2011.

Fund Raising

There had been no fund raising for the six months ended 30 June 2011.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period under review. The Group's principal financial instruments comprise cash and cash equivalents, pledged deposits, interest bearing bank and other borrowings and bank advances on factored trade receivables. The cash and cash equivalents balance as at 30 June 2011 amounted to HK$1,239 million, of which 52% were in Renminbi ("RMB"), 32% in United States dollars ("USD"), 6% in Euro and 10% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 30 June 2011 were HK$7,579 million, in which the interest bearing bank and other borrowings were HK$7,348 million and bank advances on factored trade receivables were about HK$231 million. The Group's financial position remained healthy with equity attributable to owners of the parent of HK$2,506 million (31 December 2010: HK$2,218 million). The Group had a gearing ratio of 56% at the end of the period (31 December 2010: 53%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of Deposits

Deposit balance of approximately HK$6,998 million (31 December 2010: HK$6,201 million) represented the pledged deposit for interest bearing borrowings, banking facilities and other financial instruments of approximately HK$6,978 million (31 December 2010: HK$6,176 million) and retention guarantee for factored trade receivables of approximately HK$20 million (31 December 2010: HK$25 million).

FINANCIAL REVIEW (continued)

Capital Commitments and Contingent Liabilities

As at 30 June 2011, the capital commitments were as follows:

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Property, plant and equipment		
Contracted but not provided for	**887**	4,177

The Group had no significant contingent liabilities as at 30 June 2011 (31 December 2010: 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. 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 8,900 employees as at 30 June 2011. Total staff costs for the period under review were approximately HK$384 million. The remuneration policy was reviewed in accordance with current legislation, market conditions and both individual and company performance.

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

As at 30 June 2011, 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: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives *(Note ii)*	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	30,823,756	1,920,000	9,240,620	41,984,376	3.79%
GUO Aiping	3,770,248	–	7,594,390	11,364,638	1.02%
WANG Jiyang	1,990,465	–	1,320,000	3,310,465	0.30%
BO Lianming	65,700	–	1,719,987	1,785,687	0.16%
HUANG Xubin	–	–	1,452,126	1,452,126	0.13%
XU Fang	–	–	1,093,367	1,093,367	0.10%
LOOK Andrew	–	–	600,000	600,000	0.05%
LAU Siu Ki	144,177	–	300,000	444,177	0.04%

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

TCL Corp. (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	Approximate percentage of issued share capital of the Company
LI Dongsheng	459,833,600	–	–	459,833,600	5.42%
BO Lianming	802,340	–	–	802,340	0.01%
XU Fang	–	40,000	–	40,000	0.0005%

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

TCL Multimedia (Note iv)

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	23,095,848	2,538,000	3,194,756	28,828,604	2.65%
BO Lianming	1,807	–	340,357	342,164	0.03%
XU Fang	–	–	330,210	330,210	0.03%
HUANG Xubin	–	–	295,229	295,229	0.03%

Notes:

i. The interests as disclosed above include certain movements of interest notified to the Company subsequently:

a) purchase of 258,000 shares in the Company by Mr. LI Dongsheng;

b) disposal of 6,000,000 shares and 133,724 shares in TCL Corp. by Mr. LI Dongsheng and Mr. BO Lianming respectively;

c) issuance of 232,916,800 shares, 401,170 shares and 20,000 shares in TCL Corp. to Mr. LI Dongsheng, Mr. BO Lianming and Ms. XU Fang respectively as a result of the issue of new shares by conversion of the capital reserve fund by TCL Corp.;

d) purchase of 220,000 shares and 5,638,000 shares respectively in TCL Multimedia by Mr. LI Dongsheng (if taken into account of the consolidation effective on 23 January 2009, such number amounted to 22,000 shares and 563,800 shares respectively);

e) disposal by Mr. LI Dongsheng of 1,200,000 shares in TCL Multimedia; and

f) granting by TCL Multimedia to Mr. LI Dongsheng of 34,317 awarded shares.

ii. On 3 May 2011, new share options were granted to the Directors under the Share Option Scheme of the Company. Further details of the share options during the period under review were set out in note 14 to the financial statements.

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

iv. 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 2011, 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 2011, 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 shares capital**	*Notes*
TCL Corp.	Interest of controlled corporation	531,445,544	47.91%	*i*
Mr. WONG Toe Yeung	Beneficial owner/ Interest of spouse/ Interest held jointly with his spouse/ Interest of controlled corporation	91,098,138	8.21%	*ii*
Ms. LEUNG Lai Bing	Beneficial owner/ Interest of spouse/ Interest held jointly with her spouse	91,098,138	8.21%	*ii*

Notes:

i. *Under the SFO, TCL Corp. was deemed to be interested in 531,445,544 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) 11,125,188 shares which are jointly held by Mr. WONG and Ms. LEUNG; (d) 19,340,000 shares which are held by Top Scale Company Limited, a company wholly owned by Mr. WONG; and (e) options held by Mr. WONG for subscribing 5,000,000 shares.*

Save as disclosed above, as at 30 June 2011, 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 2011, 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 enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period under review.

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 four members including Mr. LAU Siu Ki (Chairman), Mr. LOOK Andrew and Mr. KWOK Hoi Sing, independent non-executive Directors, and Mr. BO Lianming, a non-executive Director.

Other Information

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 Carry Wealth Holdings Limited with effect from 13 July 2011.

Mr. LOOK Andrew has resigned as a consultant of Opes Asia Development Limited with effect from 30 April 2011.

Mr. KWOK Hoi Sing has resigned as an independent non-executive director of Diguang International Development Co., Ltd. with effect from 31 July 2011.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 13.8 HK cents (first half of 2010: special dividend of 8.0 HK cents) per ordinary share after the interim period. The interim dividend will be paid to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on 31 August 2011. The interim dividend will be paid on or about 16 September 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 29 August 2011 to 31 August 2011, during which no transfer of shares of the Company will be effective. In order to qualify for the interim dividend, 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 26 August 2011.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong
8 August 2011