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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 02618)

RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2012

FINANCIAL HIGHLIGHTS

Unaudited results for the three months ended 31 March

	2012 (HK$'000)	2011 (HK$'000)	Change (%)
Revenue	**2,105,189**	2,123,860	-1%
Gross profit	**418,687**	472,920	-11%
Gross profit margin (%)	**20**	22	-2%
EBITDA	**50,342**	188,185	-73%
Profit attributable to owners of the parent	**25,702**	180,117	-86%
Basic earnings per share attributable to ordinary equity holders of the parent (HK cents)	**2.30**	16.38	-86%
Diluted earnings per share attributable to ordinary equity holders of the parent (HK cents)	**2.27**	15.67	-86%

OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and accessories in the first quarter of 2012 totaled 7.8 million units, down 10% year-on-year (YoY), while average selling price increased by 11% from US$31.3 in the first quarter of 2011 to US$34.6 in the first quarter of 2012.
- In the first quarter of 2012, revenue slightly decreased by 1% YoY to HK$2.1 billion, net profit decreased by 87% YoY to HK$ 24 million, and basic earnings per share decreased to 2.3 HK cents from 16.4 HK cents.
- In spite of the weaker demand for feature phones, the enhanced product mix enables the products of the Group to maintain its sustainable competitiveness.
- Upon passing the smartphone validation of operators, a series of smartphone models will commence shipment from the second quarter of 2012 onwards.
- Growth momentum for China smartphone market continued, shipment increased month by month.

The board of directors (the “Board”) of TCL Communication Technology Holdings Limited (“TCT” or the “Company”) announced the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (the ‘‘Group’’) for the three months ended 31 March 2012, with comparative figures for the same period last year as follows and these condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s Audit Committee:

CONSOLIDATED INCOME STATEMENT

	Notes	**Three months ended 31 March 2012 (Unaudited) HK$'000**	2011 (Unaudited) HK$'000
REVENUE	3	**2,105,189**	2,123,860
Cost of sales		**(1,686,502)**	(1,650,940)
Gross profit		**418,687**	472,920
Other income and gains	3	**186,859**	114,836
Research and development costs		**(139,886)**	(89,575)
Selling and distribution costs		**(212,520)**	(166,125)
Administrative expenses		**(135,989)**	(113,620)
Other operating expenses		**(46,505)**	(4,650)
Finance costs	4	**(39,945)**	(30,340)
Share of losses of an associate		**(522)**	(492)
PROFIT BEFORE TAX	5	**30,179**	182,954
Income tax expense	6	**(6,615)**	(2,750)
PROFIT FOR THE PERIOD		**23,564**	180,204
Attributable to:			
Owners of the parent		**25,702**	180,117
Non-controlling interests		**(2,138)**	87
		23,564	180,204
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	7		
Basic		**2.30**	16.38
Diluted		**2.27**	15.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT FOR THE PERIOD	**23,564**	180,204
OTHER COMPREHENSIVE INCOME		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**1,271**	(40,152)
Reclassification adjustments for gains included in the consolidated income statement	**(34,542)**	(8,131)
	(33,271)	(48,283)
Exchange differences on translation of foreign operations	**34,879**	44,319
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**1,608**	(3,964)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**25,172**	176,240
Attributable to:		
Owners of the parent	**27,310**	176,124
Non-controlling interests	**(2,138)**	116
	25,172	176,240

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2012 (Unaudited) HK$'000**	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**473,491**	497,132
Prepaid land lease payments		**183,591**	185,444
Other intangible assets		**804,340**	702,215
Goodwill		**253,954**	253,954
Investments in an associate		**1,826**	2,352
Available-for-sale investments		**26,272**	26,272
Deferred tax assets		**106,819**	105,668
Total non-current assets		**1,850,293**	1,773,037
CURRENT ASSETS			
Inventories		**1,262,181**	981,416
Trade receivables	8	**1,716,238**	2,584,768
Factored trade receivables		**301,031**	309,960
Notes receivable		**67,454**	53,470
Prepayments, deposits and other receivables		**932,295**	870,488
Due from related companies		**14,558**	13,678
Tax recoverable		**13,364**	12,261
Derivative financial instruments		**108,068**	148,693
Pledged deposits		**5,069,208**	6,092,411
Cash and cash equivalents		**1,168,644**	1,186,637
Total current assets		**10,653,041**	12,253,782
CURRENT LIABILITIES			
Interest bearing bank and other borrowings		**6,017,367**	7,222,256
Trade and notes payables	9	**1,798,941**	1,952,129
Bank advances on factored trade receivables		**301,031**	309,960
Other payables and accruals		**1,268,829**	1,431,091
Derivative financial instruments		**60,193**	71,157
Provision for warranties		**126,861**	137,574
Due to related companies		**143,990**	165,210
Tax payable		**15,440**	25,744
Total current liabilities		**9,732,652**	11,315,121
NET CURRENT ASSETS		**920,389**	938,661
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,770,682**	2,711,698

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Note	**31 March 2012 (Unaudited) HK$'000**	31 December 2011 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,770,682**	2,711,698
NON-CURRENT LIABILITIES			
Retirement indemnities		**2,327**	2,263
Long service medals		**1,370**	1,332
Deferred tax liabilities		**35,036**	35,032
Total non-current liabilities		**38,733**	38,627
Net assets		**2,731,949**	2,673,071
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**1,121,381**	1,114,193
Shares held for Share Award Scheme		**(80,708)**	(80,708)
Reserves		**1,516,051**	1,467,753
Proposed final dividends		**167,384**	167,384
		2,724,108	2,668,622
Non-controlling interests		**7,841**	4,449
Total equity		**2,731,949**	2,673,071

Notes

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Group's forward contracts 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. The accounting policies and basis of preparation adopted in the preparation of these financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011.

2. OPERATING SEGMENT INFORMATION

For management purpose, the management does not review the performance of the business in China and overseas segments separately, but considers there is only one of segment which is research and development, manufacture and sales of mobile phones and other products. Such changes have been restated for comparative amounts in the same period of prior year. All of the Group's products are of a similar nature and subject to similar risk and returns.

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

<u>Information about a major customer</u>

For three months ended 31 March 2012, no revenue from a single customer accounted for 10% or more of the total revenue of the Group.

For three months ended 31 March 2011, revenue of HK$235,060,000 was derived from a single customer, which accounted for 11% of the total revenue of the Group.

Notes (continued)

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 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 three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Sale of mobile phones and other products	**2,105,189**	2,123,860
Other income and gains		
Interest income	**53,440**	42,922
Subsidy income*	**43,072**	539
Value-added-tax ("VAT") refunds**	**23,762**	9,190
Value-added service income	**2,605**	495
Gain on sale of patents	**20,000**	-
Exchange gain, net	**-**	60,087
Including: exchange gains on derivative financial instruments	**-**	8,959
Gain on disposal of items of property, plant and equipment (note 5)	**167**	-
Gain on disposal of prepaid land lease payment and affiliated buildings (note 5)	**43,000**	78
Others	**813**	1,525
	186,859	114,836

* Subsidy income represented various government grants received by the Group in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

** During the three months ended 31 March 2012 and 2011, JRD Communication (Shenzhen) Limited ("JRD Shenzhen") and JRD Communication Technology (Shanghai) Limited ("JRD Shanghai") (newly designated as software enterprise in December 2011), being designated as software enterprises, were entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT at a rate of 17%.

Notes (continued)

4. FINANCE COSTS

	For the three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans and other loans wholly repayable within one year	**38,815**	30,285
Interest on discounted notes and factored trade receivables*	**1,130**	55
Total finance costs	**39,945**	30,340

* The effective interest rate of factored trade receivables is 0.22% per month (three months ended 31 March 2011: 0.18%).

5. PROFIT BEFORE TAX

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

	For the three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**1,686,502**	1,650,940
Depreciation of property, plant and equipment	**24,273**	15,773
Prepaid land lease recognised	**776**	173
Amortisation of computer software, intellectual property and ALCATEL brand license*	**8,609**	2,039
Research and development costs:		
Deferred expenditure amortised	**41,842**	19,331
Current period expenditure	**98,044**	70,244
	139,886	89,575
Brand management fee/TCL Brand Common Fund/ALCATEL brand license fee*	**10,115**	16,659
Minimum lease payments under operating leases in respect of land and buildings	**17,790**	9,750
(Reversal of)/provision of impairment loss of trade receivables	**(1,007)**	427
Gain on disposal of items of property, plant and equipment (note 3)	**(167)**	-
Gain on disposal of prepaid land lease payment and affiliated buildings (note 3)	**(43,000)**	(78)

Notes (continued)

5. PROFIT BEFORE TAX (continued)

* On 19 September 2011, the Group entered into the Amended License Agreement with Alcatel-Lucent as the licensor and a consideration of US$40,000,000 was paid in form of cash (equivalent to approximately HK$312,000,000) as license fee for the use of the "ALCATEL" brand name for certain of its products for the period from 1 July 2011 to 31 December 2024. The amortisation of ALCATEL brand license represented the amortisation of total consideration of US$ 40,000,000 (equivalent to approximately HK$312,000,000) under the Amended License Agreement, while the ALCATEL brand license fee represented the expense for use of "ALCATEL" brand under the original license agreement.

6. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current		
Charge for the period:		
The PRC	**397**	2,288
France	**2,010**	-
Russia	**3,654**	1,746
The United States	**11**	73
Underprovision/ (overprovision) in prior years	**543**	(1,357)
Tax charge for the period	**6,615**	2,750

No Hong Kong profits tax has been provided (three months ended 31 March 2011: 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 of which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation for 2011 to 2013 and hence was subject to a national income tax rate of 15% from 2011 to 2013. No profit tax have been provided during the period and the same period of 2011 since no assessable tax profit arose in Mainland China.

According to the Corporate Income Tax Law of the PRC, TCL Mobile Communication (Hohhot) Co., Ltd. ("TCL Mobile Hohhot"), a subsidiary of the Company in the PRC, was subject to the PRC corporate income tax rate of 25% for the period and the same period of 2011. No profits tax has been provided during the period and the same period of 2011 for TCL Mobile Hohhot since no assessable tax profit arose in Mainland China.

Notes (continued)

6. INCOME TAX EXPENSE (continued)

JRD Shenzhen, a subsidiary of the Company in the PRC, has obtained high technology enterprise accreditation with the effective period from November 2008 to November 2011, and renewed such accreditation to November 2014. According to the Corporate Income Tax Law of the PRC on high technology software enterprises, JRD Shenzhen was subject to the PRC corporate income tax rate of 15% for the period and the same period of 2011. Profits tax arising from JRD Shenzhen has been provided in Mainland China as assessable income arose during the period and the same period of 2011.

According to the Corporate Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Shanghai, 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 being a newly established high technology software enterprise. During the period and the same period of 2011, no PRC profit tax has been provided for JRD Shanghai.

"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 period and the same period of 2011. Profits tax arising from Russia has been provided as assessable income arose during the period and the same period of 2011.

TCT Mobile Europe SAS, a subsidiary of the Company in France, is subject to a corporate income tax rate of 33.33% during the period and the same period of 2011. According the new French tax policy applied in 2011, entity needs to pay income tax whereas the entity has tax losses carry forwards. French profits tax has been provided as assessable income arose during the period (three months ended 31 March 2011: nil).

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 2012 and 2011. In all cases, the payment of IETU is required only to the extent that it exceeds the ISR for the same period. No Mexico ISR or IETU has been provided since no assessable income arose for the period and the same period of 2011.

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 #11.727 and Articles 228 of Decree #3.000 of the Income Tax Regulation in Brazil. No Brazilian profits tax has been provided during the period and the same period of 2011 since no assessable tax profit arose in Brazil.

TCT Mobile, Inc., a subsidiary of the Company in the United States, is subject to the United States Federal tax rate of 35% and the California State tax rate of 8.84% during the period and the same period of 2011. Profits tax arising from TCT Mobile, Inc. has been provided as assessable income arose during the period and the same period of 2011.

Notes (continued)

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

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

	For the three months ended 31 March	
	2012	2011
	(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	**25,702**	180,117

	Number of shares	
Shares	**2012**	2011
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,117,039,448**	1,099,588,924
Effect of dilution - weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options and allotment and issuance of awarded shares	**17,646,018**	49,873,353
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**1,134,685,466**	1,149,462,277

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

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

Notes (continued)

8. TRADE RECEIVABLES

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

	31 March 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Within 3 months	**1,482,594**	2,063,443
4 to 12 months	**232,113**	520,606
Over 12 months	**12,496**	13,289
	1,727,203	2,597,338
Impairment	**(10,965)**	(12,570)
	1,716,238	2,584,768

The credit period is generally 30 to 90 days.

9. 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 the invoice date, is as follows:

	31 March 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Within 6 months	**1,781,749**	1,929,172
7 to 12 months	**4,689**	10,463
Over 12 months	**12,503**	12,494
	1,798,941	1,952,129

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

Notes (continued)

10. SHARE CAPITAL

	Number of shares	Issued share capital HK$'000	Share premium HK$'000
Authorised:			
Ordinary shares of HK$1 each at 1 January 2011, 31 December 2011, 1 January 2012 and 31 March 2012	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
At 1 January 2011	1,097,527,996	1,097,528	232,602
Share options exercised	17,638,377	17,638	46,418
Reclassification of lapsed share options	-	-	116
Reclassification of vested shares	-	-	(70)
Shares purchased for Share Award Scheme	-	-	7,615
Share repurchased	(973,000)	(973)	(3,165)
2010 final dividend declared	-	-	(630)
At 31 December 2011 and at 1 January 2012	1,114,193,373	1,114,193	282,886
Share options exercised*	7,187,604	7,188	8,874
At 31 March 2012	1,121,380,977	1,121,381	291,760

* 7,187,604 share options were exercised during the three months ended 31 March 2012 at subscription prices ranging from HK$1.648 to HK$3.020 per share, resulting in the issue of 7,187,604 shares of HK$1 each for a total cash consideration of HK$16,062,000.

11. EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of reporting period and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Driven by the robust demand for handsets in the emerging markets, as well as aggressive marketing approaches of both operators and handset makers facilitating the replacement cycle of handsets, the global handset market is expected to experience continuous growth in 2012 amid uncertainty in the macro-economic environment. According to Strategy Analytics, a global research and consulting firm, total mobile phone shipments are expected to reach 1.8 billion units in 2012. Asia, Africa and Latin America will be the world's three fastest-growing handset markets.

Smartphones will continue to be the main growth driver for the industry, and is expected to record substantial growth in the coming year due to strong end-user demand, the broader selection of smartphones at telecommunications operators and smartphone vendors, as well as lower price points. As mid- to high-end smartphones continue to gain market share in mature markets, low- to mid-end smartphones will sustain remarkable growth in the emerging markets as the products become increasingly affordable on the falling prices of chipsets and increased competition. On the other hand, although sales of feature phones showed the first signs of decline last year, over a billion feature phones were sold in 2011, outselling smartphones by more than 2:1. Due to their affordable pricing and ease of use, feature phones are expected to continue to appeal to customers, especially in the emerging markets.

China became the world's largest market for mobile phones with a total of 1.13 billion units sold in 2011, and smartphone shipments in China surpassed that of the United States in the second half of 2011; growth momentum of smartphone shipments is expected to continue well into 2012 and beyond. China is expected to become the leading country-level market for smartphone shipments in 2012, which would put it ahead of the current leader, the United States.

Business Review

In the first quarter of 2012, the total sales volume of handsets and other products reached 7.8 million units, representing a decrease of 10% over the same period of 2011. A total of 6.5 million units were sold in the overseas markets; while 1.3 million units were sold in the China market, representing a year-on-year increase of 211%.

In spite of the weaker demand for feature phone, the enhanced product mix enables the products of the Group to maintain its sustainable competitiveness. Accordingly, the average selling price ("ASP") improved from US$31.3 to US$34.6, and the total revenue therefore decreased by only 1%, from HK$2,124 million to HK$2,105 million. Overall gross profit margin decreased slightly from 22% recorded in the first quarter of 2011 to 20% in the first quarter of 2012 due to the weakened market demand and keen competition in the handset industry.

During the first quarter of 2012, the Group dedicated more resources to research and development, and has passed the smartphone validations of operators. As a result, a series of smartphone models will commence shipment from the second quarter of 2012 onwards. On the other hand, more advertising and promotional activities were launched during the first quarter of 2012, which resulted in the growth momentum for China smartphone market continued, and shipment increased month by month. However, the first quarter of 2012 was still a ramp-up period for smartphones; growth momentum for smartphones is expected to take off once the new smartphone models are launched from the second quarter onwards. As a result, net profit in the first quarter of 2012 decreased significantly by 87% to HK$24 million. Basic earnings per share decreased to 2.3 HK cents from 16.4 HK cents over the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

During the period under review, the Group continued to expand into new and high-potential markets, and strengthened its market position with its “Step-up” product strategy and continuous brand-building efforts. The Group continued to broaden its distribution channels, fostered strategic cooperation with major telecommunications operators worldwide and expanded its market into New Zealand and Myanmar. The Group also further penetrated into emerging markets with high potentials such as Russia, Columbia, Indonesia and Vietnam.

In order to penetrate further into mid- to high-end markets, the Group also stepped up its efforts in promoting its 3G Android smartphones, continuing to optimize its product portfolio of feature phones and launching new handsets with features tailor-made for local markets. The Group continued to step-up its efforts in enhancing its product development capabilities, especially for smartphones, so as to enhance the competitiveness of its products. As a result, sales of the Group’s smartphones grew steadily in the past few months – smartphones currently account for 10% of the Group’s total shipments. In addition, the Group launched a series of new smartphones during the period under review, all of which received positive feedback from the market and were selected by major telecommunications operators around the world. For example, the Group’s TCL E906 smartphone was successfully selected for China Mobile’s 2012 first G3 smart terminal centralized procurement exercise in January 2012 following the selection of the Group’s TCL W989 by China Unicom for its new 4.0 series products in December last year. The Group also achieved tremendous breakthroughs in passing the technological standards of different telecommunications operators on smartphones, and plans to launch a number of new products from the second quarter onwards.

In China, the Group continued to foster cooperation with the country’s three major telecommunications operators, as well as its strategic partnerships with e-commerce service providers such as Sohu, Sina, NetEase and Tencent. The Group has also established online sales channels on 360buy.com, Tmall and Suning.com. Riding on the growing demand for smartphones in China, the Group has launched a series of new 3G Android products and strengthened its brand promotion efforts during the quarter under review. To further drive the sales of smartphones in China, the Group will organize strategic alliance conferences in 15 provinces in China, including Guangdong, Shandong, Sichuan, Fujian, Shaanxi, Jiangsu, Zhejiang and Yunnan from March to May 2012, in which the Group will form strategic alliances with major distributors, retailers and other telecommunication corporations in different cities to promote its TCL cloud smartphones.

Sales volume breakdown by market

Handsets and Other Products Unit Sales For the three months ended 31 March			
(‘000 units)	**2012**	2011	Change (%)
Overseas	**6,570**	8,304	-21%
The PRC	**1,279**	411	211%
Total	**7,849**	8,715	-10%
Including: smartphones	**746**	24	+3,008%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Europe, Middle East and Africa ("EMEA")

During the period under review, shipments to EMEA decreased by 26% year-on-year to 2.5 million units due to the subsequent influence of the unstable political status in Africa and European debt crisis. Nevertheless, we still recorded strong growth in France and Spain, which was mainly due to the low cost 'Bic' phone (ONE TOUCH 204), marketed in by Orange, have received positive response. Besides, the Group maintained an appealing sales mix in the open market.

In the coming quarter, the Group will continue to reinforce its smartphone sales and will introduce 5 new smartphone models in order to further penetrate the smartphone market. The Group will also continue to strengthen its market-leading position as it plans to explore new markets in Nordics countries such as Sweden in the second quarter of 2012.

Americas

In the first quarter of 2012, sales in the Americas dropped by 21% year-on-year to 3.4 million units, during the product transition period. Owing to the robust sales of entry-level smartphones, the launch of dual-SIM products in the open market, as well as stronger sales in open markets and direct sales to distributors, Columbia, Chile and Dominican Republic still achieved significant growth during the period under review. In USA, low cost feature phones are popular among prepaid market and the Group still works closely with the local operators. The Group also signed a number of new major customers, including operators in Brazil.

Among the Group's products, the ONE TOUCH 217A, the Group's low cost feature phone, was the best-selling model in the Americas market due to its appealing features and affordable price. Meanwhile, the Group's ONE TOUCH 918 was selected as the flagship entry-level smartphone by a number of operators in Chile, Peru, Colombia and the Caribbean region.

In the coming quarter, the Group will continue to strengthen sales of its 3G feature phones and smartphones and to enhance its market share by optimizing its product portfolio. The Group will launch more than 10 new models of feature phones, smartphones and phones for senior citizens, as well as new products with 3-SIM capability. The Group will also reinforce its brand building efforts in the region through various marketing campaigns and sponsorship of sporting events.

Asia Pacific ("APAC")

In the first quarter of 2012, the Group's sales volume in the APAC region reached 0.6 million units, up 10% with the first quarter of 2011. The Group's diversified and balanced product portfolio, which consisted of both entry-level and 3G Android handsets, helped the Group to penetrate different markets. The Group recorded remarkable performance in Indonesia, Vietnam and Israel, and the Group's low-end camera phone, the ONE TOUCH 318D, was the best seller in the APAC region.

During the review period, the Group's products were selected by a number of new customers, such as TG phone and D Plus as distributors in Thailand, and TATA and Reliance as operators in India. The Group also stepped up its efforts in brand promotion and launched large-scale promotional activities in different countries such as India and the Philippines, all of which received positive responses.

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

Asia Pacific ("APAC") (continued)
In the second quarter of 2012, the Group will launch 4 new models in the APAC region, including two smartphones – ONE TOUCH 995 and ONE TOUCH 985 – and two mid-end phones – the ONE TOUCH 720 and ONE TOUCH 595. The Group will continue to strengthen its customer base and sales channels, and plans to expand its into Laos and Myanmar.

China
In the first quarter of 2012, the sales volume of handsets in the China market reached 1.3 million units, representing an increase of 211% compared to the corresponding period of last year, was the most fast-growing region. The impressive performance was attributable to the robust sales of smartphones, the expansion of the Group's sales network, as well as the increasing popularity of the Group's products due to their competitive prices and innovative designs and features.

In view of the increasing demand for smartphones, the Group launched a total of 5 new smartphones during the review period. The Group's products received an overwhelming response from the market. In particular, the A966, the Group's first QQ smartphone featuring a number of pre-installed Tencent cloud applications, was the best seller among all the products on the market. Furthermore, the Group's TCL W989 was selected by China Unicom for its new 4.0 series products, while the A996 was selected by Suning Appliance, China's leading home appliances retailer, as one of its key smartphone products. The Group's cloud concept phone, the Xiangyun A919, also received strong support from the market.

The Group continued to foster cooperation with the country's three major telecommunication operations while also broadening its sales channels during the review period. Breakthroughs were achieved in open markets in Shanxi, Tianjin, Zhejiang, Gansu, Liaoning and Shenzhen, and the Group broadened its channel distribution in third and fourth-tier markets in selected regions. In addition, the Group also enhanced its cooperation with its e-commerce partners such as Sohu, Sina, NetEase and Tencent, and established online sales channels on 360buy.com, Tmall and Suning.com.

The Group has established 4,200 core outlets, around 800 open experience terminal stores and 15 TCL smart cloud phone franchises supported by a marketing team of around 3,000 salespersons as at 31 March 2012. The Project, which is scheduled and selectively supported by the Group and executed by its distributors and channel partners, will significantly enhance the Group's sales network in China and will therefore reinforce the Group's market-leading position in the country.

During the second quarter of 2012, the Group will enrich its product portfolio by launching more new smartphone models, especially those with 3.2 to 4.3-inch screens. In order to sustain growth, the Group will also continue to expand its nationwide sales network and strengthen its cooperation with major Chinese retail chains such as Suning Appliance, Dixintong Telecom and Zhongyu Telecom.

<u>Product Development</u>

The Group remained committed to distinguishing itself through its product development capabilities in the first quarter of 2012. A number of new products were launched during the period under review, including a number of 3G Android products such as the E906, W989, C995 and ONE TOUCH 995. All of these new products received positive market feedback and were selected by global major telecommunications operators such as China Mobile, China Unicom, China Telecom, Orange, Telefonica, etc..

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Product Development (continued)

In January 2012, the TCL E906 smartphone was selected for China Mobile's 2012 first G3 smart terminal centralized procurement, shortly after the Group's TCL W989 was selected by China Unicom for its new 4.0 series products a month earlier. The ONE TOUCH 995 ULTRA, featuring a 4.3 inches display and 1.4 GHz processor, also came into the spotlight at the International Consumer Electronics Show (CES) 2012 with its modern design and innovative features. In February, the Group launched the TCL A966, its first 3.5-inch QQ smartphone which features a number of pre-installed Tencent cloud applications, as well as the TCL A998 smartphone, which incorporates a wide range of Sohu applications. The launch of the TCL A966 and the TCL A998 attests to the Group's close cooperation with its strategic partners such as Sohu, Tencent, Sina and Netease. In addition, the Group also launched in China the T50, a new tablet boasting a 7-inches display and 3G and Wi-Fi, in the first quarter of 2012, which received positive customer feedback.

The Group's products have achieved recognition from both customers and the industry during the period under review. In March 2012, the Group's ONE TOUCH 916 won the "Red Dot Award: Product Design 2012" in Germany, marking the second consecutive year in which the Group won this internationally recognized award, after the ONE TOUCH 818 and ONE TOUCH 355 PLAY were also awarded the same recognition last year. The award demonstrates that the Group's products exemplify the highest standards in their appearance and quality.

Outlook

Looking to 2012, the Group expects the business environment for the industry in both China and the overseas markets to remain challenging, with the increasingly intense industry competition and weakened consumer sentiment due to volatility in the global economy. Nevertheless, buttressed by the solid results which the Group has achieved over the previous years, its reputable brand, strong R&D capabilities, diversified product portfolio and extensive market presence, the Group is confident that it will regain its sales growth momentum from the second quarter onwards.

The Group believes that its business in China and the sales volume of smartphones will be its major growth drivers in 2012. The Group is confident that the growth momentum of smartphones will continue from the second quarter onwards as the first quarter of 2012 was only a ramp-up period of smartphone. The Group will launch an array of new smartphones from the second quarter of 2012 onwards, including the 3G Android models that were successfully selected by China Unicom (Model TCL W939 and TCL W969) and China Mobile (Model TCL E906), while also continuing to improve the style, functionality, quality and competitiveness of its products, especially its smartphones. With its enhanced R&D capabilities and increased efforts in brand promotion, the Group will continue to strengthen the position of TCL and ALCATEL as the mainstream brands for its smartphones. The Group expects the new products to receive a positive response from the market and that the sales of smartphones to achieve another breakthrough in 2012, which will in turn propel the overall average selling price in the near future.

For the China market, the Group will continue to enhance its market penetration in the country by launching new products customized for local consumers, expanding its distribution network, and fostering partnerships with the three major telecommunication operators and major online media enterprises in China. The Group has completed the establishment of 4,200 points of sale in China, which will be increased to 6,000 by the end of second quarter of 2012.

Outlook (continued)

In the overseas market, the Group will continue to reinforce its leading position in the global handset market by launching more new products and extending its global reach. The Group will continue its geographical expansion into new, high-potential markets, and strengthen its penetration into China and emerging markets. Backed by its strong R&D and design capabilities, the Group is well-positioned to solidify its leadership position in the low-end handset market and to further expand its mid- to high-end market share. Meanwhile, the Group will strengthen its strategic alliances with major telecommunications operators worldwide and will continue to seize opportunities that arise in the open markets.

The Group expects a gradual improvement in sales from the second quarter onwards, and reiterates that its target for the year 2012 is to achieve a 30% year-on-year increase in revenue. The Group will also aim to improve the operational efficiency of its product value chain, the efficiency of its supply chain and the effectiveness of research and development in its projects, so as to consolidate its leading position in the industry and to pave way for long-term growth in future.

Financial Review

Results

For the three months ended 31 March 2012, the Group's unaudited consolidated revenue amounted to HK$2,105 million (three months ended 31 March 2011: HK$2,124 million), representing a year-on-year decrease of 1% as compared to the same period of last year.

The Group's gross profit margin dropped to 20% from 22% in the same period of last year.

EBITDA and profit attributable to owners of the parent were HK$50 million (three months ended 31 March 2011: HK$188 million) and HK$26 million (three months ended 31 March 2011: HK$180 million) respectively. Basic earnings per share was 2.30 HK cents (three months ended 31 March 2011: 16.38 HK cents).

Inventory

For the current period, the Group's inventory (including factory materials and goods only) turnover period was 47 days (year ended 31 December 2011: 25 days).

Trade Receivables

Credit period was 30-90 days on average and the trade receivable (excluding factored trade receivables) turnover was 75 days for the current period (year ended 31 December 2011: 89 days).

Significant Investments and Acquisition

There had been no significant investment and acquisition for the three months ended 31 March 2012 and up to the date of this results announcement.

Fund Raising

There had been no fund raising for the three months ended 31 March 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Financial Review (continued)

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period. 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 balances as at 31 March 2012 amounted to HK$1,169 million, of which 37% were in Renminbi, 46% were in US dollar, 6% were in Euro and 11% were in Hong Kong dollar and other currencies for the operations. The Group's total interest-bearing borrowings as at 31 March 2012 were HK$6,318 million, in which the interest bearing bank and other borrowings were HK$6,017 million and bank advances on factored trade receivables were HK$301 million. The Group's financial position remained healthy, with equity attributable to owners of the parent of HK$2,724 million (31 December 2011: HK$2,669 million). The Group had a gearing ratio of 51% at the end of the period (31 December 2011: 54%). The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of Deposits

Deposit balance of HK$5,069 million (31 December 2011: HK$6,092 million) represented the pledged deposit for interest bearing bank borrowings, banking facilities and other financial instruments of HK$5,048 million (31 December 2011: HK$6,070 million) and retention guarantee for factored trade receivables of HK$21 million (31 December 2011: HK$22 million).

Capital Commitment and Contingent Liabilities

As at 31 March 2012, the capital commitments are as follows:

	Group	
	31 March 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
Property, plant and equipment		
Contracted but not provided for	**3,821**	4,311

The Group had no contingent liabilities as at 31 March 2012 (31 December 2011: 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, US dollar 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 over 10,400 employees as at 31 March 2012. Total staff costs for the period under review were HK$315 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

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.

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 three months ended 31 March 2012, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

AUDIT COMMITTEE

The unaudited consolidated results for the three months ended 31 March 2012 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, all being independent non-executive directors of the Company, and Mr. HUANG Xubin, a non-executive director of the Company.

On behalf of the Board

TCL Communication Technology Holdings Limited

LI Dongsheng

Chairman

Hong Kong

26 April 2012

As at the date of this announcement, the Board comprises Mr. LI Dongsheng, Mr. GUO Aiping and Mr. WANG Jiyang, being the executive directors; Mr. BO Lianming, Mr. HUANG Xubin and Ms. XU Fang, being the non-executive directors; Mr. LAU Siu Ki, Mr. LOOK Andrew and Mr. KWOK Hoi Sing, being the independent non-executive directors.