BE SMART

Interim Report 2012

TCL Communication Technology Holdings Limited
Stock Code: 02618

创意感动生活
The Creative Life

TCL

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Interim Report 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
Mr. WANG Jiyang

Non-Executive Directors

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

Independent Non-Executive Directors

Mr. LAU Siu Ki
Mr. LOOK Andrew
Mr. KWOK Hoi Sing

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
Mr. HUANG Xubin

REMUNERATION COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. LOOK Andrew
Mr. KWOK Hoi Sing
Ms. XU Fang

NOMINATION COMMITTEE

(Established on 24 February 2012)
Mr. KWOK Hoi Sing *(Chairman)*
(Appointed on 24 February 2012)
Mr. LAU Siu Ki
(Appointed on 24 February 2012)
Mr. LOOK Andrew
(Appointed on 24 February 2012)
Ms. XU Fang
(Appointed on 24 February 2012)

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
Central
Hong Kong

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

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

SOLICITORS

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

Corporate Information

AUDITORS
Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

BRANCH SHARE REGISTRAR
Tricor Investor Services Limited
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28 Queen's Road East
Wanchai
Hong Kong

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Grand Cayman KY1-1111
Cayman Islands

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Hong Kong

INVESTOR AND MEDIA RELATIONS
Hill+Knowlton Strategies Asia
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

Interim Report

The Board of Directors (the "Board") of TCL Communication Technology Holdings Limited (the "Company") announced the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months and six months ended 30 June 2012, with comparative figures for the same period last year as follows and these condensed interim consolidated financial statements have not been audited, but have been reviewed by the Company's Audit Committee:

INTERIM CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2012

	Notes	**Six months ended 30 June 2012 (Unaudited) *HK$'000***	Six months ended 30 June 2011 (Unaudited) *HK$'000*	**Three months ended 30 June 2012 (Unaudited) *HK$'000***	Three months ended 30 June 2011 (Unaudited) *HK$'000*
REVENUE	3	**5,093,460**	4,600,031	**2,988,271**	2,476,171
Cost of sales		**(4,111,080)**	(3,585,918)	**(2,424,578)**	(1,934,978)
Gross profit		**982,380**	1,014,113	**563,693**	541,193
Other income and gains	3	**268,449**	283,739	**81,590**	168,903
Research and development costs		**(247,372)**	(194,210)	**(107,486)**	(104,635)
Selling and distribution costs		**(488,639)**	(389,968)	**(276,119)**	(223,843)
Administrative expenses		**(268,261)**	(247,477)	**(132,272)**	(133,857)
Other operating expenses		**(50,418)**	(5,850)	**(3,913)**	(1,200)
Finance costs	4	**(83,293)**	(58,709)	**(43,348)**	(28,369)
Share of losses of associates		**(878)**	(1,010)	**(356)**	(518)
PROFIT BEFORE TAX	5	**111,968**	400,628	**81,789**	217,674
Income tax	6	**(11,830)**	(9,195)	**(5,215)**	(6,445)
PROFIT FOR THE PERIOD		**100,138**	391,433	**76,574**	211,229

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INTERIM CONSOLIDATED INCOME STATEMENT (continued)

For the three months and six months ended 30 June 2012

	Notes	**Six months ended 30 June 2012 (Unaudited) *HK$'000***	Six months ended 30 June 2011 (Unaudited) *HK$'000*	**Three months ended 30 June 2012 (Unaudited) *HK$'000***	Three months ended 30 June 2011 (Unaudited) *HK$'000*
Attributable to:					
Owners of the parent		**104,963**	391,335	**79,261**	211,218
Non-controlling interests		**(4,825)**	98	**(2,687)**	11
		100,138	391,433	**76,574**	211,229
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	8				
Basic		**9.37**	35.49	**7.06**	19.11
Diluted		**9.01**	34.13	**6.85**	18.42

Details of dividends proposed and declared for the period are disclosed in note 7 to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2012

	Six months ended 30 June 2012 (Unaudited) *HK$'000*	Six months ended 30 June 2011 (Unaudited) *HK$'000*	**Three months ended 30 June 2012 (Unaudited) *HK$'000***	Three months ended 30 June 2011 (Unaudited) *HK$'000*
PROFIT FOR THE PERIOD	**100,138**	391,433	**76,574**	211,229
OTHER COMPREHENSIVE (LOSS)/INCOME				
Cash flow hedges:				
Effective portion of changes in fair value of hedging instruments arising during the period	**(19,897)**	(50,056)	**(21,168)**	(9,904)
Reclassification adjustment for (gains)/losses included in the consolidated income statement	**(40,603)**	12,112	**(6,061)**	20,243
Income tax effect	**8,939**	(835)	**8,939**	(835)
	(51,561)	(38,779)	**(18,290)**	9,504
Exchange differences on translation of foreign operations	**(59,364)**	76,288	**(94,243)**	31,969
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX	**(110,925)**	37,509	**(112,533)**	41,473
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	**(10,787)**	428,942	**(35,959)**	252,702
Attributable to:				
Owners of the parent	**(5,962)**	428,844	**(33,272)**	252,720
Non-controlling interests	**(4,825)**	98	**(2,687)**	(18)
	(10,787)	428,942	**(35,959)**	252,702

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INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**486,669**	497,132
Prepaid land lease payments		**181,618**	185,444
Other intangible assets		**947,918**	702,215
Goodwill		**253,954**	253,954
Investments in an associate		**2,052**	2,352
Available-for-sale investments		**26,272**	26,272
Deferred tax assets		**132,169**	105,668
Total non-current assets		**2,030,652**	1,773,037
CURRENT ASSETS			
Inventories		**1,322,522**	981,416
Trade receivables	9	**1,882,833**	2,584,768
Factored trade receivables		**306,079**	309,960
Notes receivable		**135,299**	53,470
Prepayments, deposits and other receivables		**1,076,656**	870,488
Due from related companies	18(d)	**17,095**	13,678
Tax recoverable		**17,006**	12,261
Derivative financial instruments		**131,095**	148,693
Pledged deposits	10	**4,882,892**	6,092,411
Cash and cash equivalents	10	**728,731**	1,186,637
Total current assets		**10,500,208**	12,253,782
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	11	**5,736,478**	7,222,256
Trade and notes payables	12	**2,211,270**	1,952,129
Bank advances on factored trade receivables		**306,079**	309,960
Other payables and accruals		**1,176,165**	1,431,091
Derivative financial instruments		**68,803**	71,157
Provision for warranties		**141,426**	137,574
Due to related companies	18(d)	**160,904**	165,210
Tax payable		**1,284**	25,744
Total current liabilities		**9,802,409**	11,315,121
NET CURRENT ASSETS		**697,799**	938,661
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,728,451**	2,711,698

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2012

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,728,451**	2,711,698
NON-CURRENT LIABILITIES			
Retirement indemnities		**2,173**	2,263
Long service medals		**1,279**	1,332
Deferred tax liabilities		**53,368**	35,032
Due to a related company	11,18(d)	**116,382**	–
Total non-current liabilities		**173,202**	38,627
Net assets		**2,555,249**	2,673,071
EQUITY			
Equity attributable to owners of the parent			
Issued capital	13	**1,128,213**	1,114,193
Shares held for Share Award Scheme		**(80,079)**	(80,708)
Reserves		**1,468,111**	1,467,753
Proposed dividends		**33,849**	167,384
		2,550,094	2,668,622
Non-controlling interests		**5,155**	4,449
Total equity		**2,555,249**	2,673,071

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

(Restated)	Attributable to owners of the parent														
	Issued share capital *HK$'000*	Share premium account *HK$'000*	Shares held for Share Award Scheme *HK$'000*	Awarded shares reserve *HK$'000*	Share option reserve *HK$'000*	Hedging reserve *HK$'000*	Contributed surplus *HK$'000*	Statutory reserve *HK$'000*	Other reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Proposed dividends *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *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
Acquisition of a new business under common control	–	–	–	–	–	–	–	–	(130,232)	–	–	–	(130,232)	–	(130,232)
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*	(130,232)*	208,158*	153,366	443,941*	2,375,796	3,836	2,379,632

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2012

	Attributable to owners of the parent														
	Issued share capital HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded shares reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000	Statutory reserve HK$'000	Other reserve HK$'000	Exchange fluctuation reserve HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012 (audited)	**1,114,193**	**282,886**	**(80,708)**	**9,960**	**70,012**	**58,022**	**232,555**	**220,922**	**(130,232)**	**221,311**	**167,384**	**502,317**	**2,668,622**	**4,449**	**2,673,071**
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	104,963	104,963	(4,825)	100,138
Other comprehensive loss for the period:															
Cash flow hedges, net of tax	-	-	-	-	-	(51,561)	-	-	-	-	-	-	(51,561)	-	(51,561)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	-	(59,364)	-	-	(59,364)	-	(59,364)
Total comprehensive loss for the period	-	-	-	-	-	(51,561)	-	-	-	(59,364)	-	104,963	(5,962)	(4,825)	(10,787)
Addition of non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	5,531	5,531
Issue of shares and exercise of share options	12,817	29,097	-	-	(15,648)	-	-	-	-	-	-	-	26,266	-	26,266
Issue of new shares under Shares Award Scheme	1,203	(1,203)	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of lapsed share options	-	1,914	-	-	(1,914)	-	-	-	-	-	-	-	-	-	-
Equity-settled share option arrangements	-	-	-	-	17,315	-	-	-	-	-	-	-	17,315	-	17,315
Share Award Scheme arrangements	-	-	-	12,268	-	-	-	-	-	-	-	-	12,268	-	12,268
Reclassification of vested shares	-	7,421	629	(8,050)	-	-	-	-	-	-	-	-	-	-	-
2011 final dividend declared	-	-	-	-	-	-	-	-	-	-	(167,384)	(1,031)	(168,415)	-	(168,415)
Proposed 2012 interim dividend	-	-	-	-	-	-	-	-	-	-	33,849	(33,849)	-	-	-
At 30 June 2012 (unaudited)	**1,128,213**	**320,115***	**(80,079)**	**14,178***	**69,765***	**6,461***	**232,555***	**220,922***	**(130,232)***	**161,947***	**33,849**	**572,400***	**2,550,094**	**5,155**	**2,555,249**

* These reserve accounts comprise the consolidated reserves of HK$1,468,111,000 (30 June 2011 (restated): HK$1,124,314,000) in the consolidated statement of financial position.

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash inflows from operating activities	**321,253**	205,759
Net cash outflows used in investing activities	**(439,940)**	(297,400)
Net cash outflows used in financing activities	**(301,395)**	(18,517)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(420,082)**	(110,158)
Cash and cash equivalents at beginning of period	**1,186,637**	1,345,283
Effect of foreign exchange rate changes, net	**(37,824)**	3,539
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**728,731**	1,238,664
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position	**728,731**	1,238,664

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed interim 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 2011. 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 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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non – Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group has adopted HKAS 12 Amendments from 1 January 2012. Since the Group has no investment property measured at fair value, the adoption of HKAS 12 has no financial impact on the Group.

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 sale of mobile phones and other products. Such changes have been restated for comparative amounts in prior year. All of the Group's products are of a similar nature and subject to similar risk and returns.

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2. OPERATING SEGMENT INFORMATION (continued)

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.

Information about a major customer

For the six months ended 30 June 2012 and 2011, no revenue from a single customer accounted for 10% or more 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 during the period, after deducting 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sale of mobile phones and other products	**5,093,460**	4,600,031
Other income and gains		
Interest income	**107,297**	87,088
Subsidy income*	**47,310**	9,365
Value-added-tax ("VAT") refund**	**62,030**	26,414
Value-added service income	**4,598**	3,482
Exchange gain, net	**–**	150,265
Including: exchange loss on derivative financial instruments	**–**	(177)
Gain on disposal of items of property, plant and equipment (note 5)	**832**	732
Gain on disposal of prepaid land lease payment and affiliated buildings (note 5)	**43,000**	–
Dividend income from an available-for-sale investment	**1,913**	1,477
Others	**1,469**	4,916
	268,449	283,739

3. REVENUE, OTHER INCOME AND GAINS (continued)

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

** During the six months ended 30 June 2012 and 30 June 2011, JRD Communication (Shenzhen) Ltd ("JRD Shenzhen") and JRD Communication Technology (Shanghai) Limited ("JRD Shanghai") (newly designated as software enterprise in December 2011), being designated software enterprises, were entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

4. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within three years	**80,605**	58,357
Interest on discounted notes and factored trade receivables*	**2,688**	352
	83,293	58,709

* The effective interest rate of factored trade receivables is 0.20% (six months ended 30 June 2011: 0.17%) per month.

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**4,111,080**	3,585,918
Depreciation of property, plant and equipment	**51,178**	34,649
Amortisation of land lease payment	**1,701**	345
Amortisation of computer software, intellectual property and ALCATEL brand licence*	**18,980**	4,439
Research and development costs:		
Deferred expenditure amortised	**100,868**	44,462
Current period expenditure	**146,504**	149,748
	247,372	194,210
Brand management fee/TCL Brand Common Fund/ALCATEL brand licence fee*	**7,870**	35,543
Minimum lease payments under operating leases in respect of land and buildings	**34,702**	22,652
(Reversal)/provision of impairment loss of trade receivables	**(4,539)**	5,871
Impairment loss of other receivables	**1,190**	–
Gain on disposal of items of property, plant and equipment (note 3)	**(832)**	(732)
Gain on disposal of prepaid land lease payment and affiliated buildings (note 3)	**(43,000)**	–

* 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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current		
Charge for the period:		
The PRC	**169**	8,419
Russia	**2,461**	2,079
France	**5,063**	–
The United States	**86**	–
Underprovision/(overprovision) in prior years	**3,008**	(1,357)
	10,787	9,141
Deferred	**1,043**	54
Tax charge for the period	**11,830**	9,195

No Hong Kong profits tax has been provided (six months ended 30 June 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 in which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd., a subsidiary of the Company in the PRC, was given a high technology enterprise accreditation for 2011 to 2013 and hence is subject to a national income tax rate of 15% for the year 2012 and 2011.

JRD Shenzhen, a subsidiary of the Company in the PRC, was given a high technology enterprises accreditation from 2008 to 2011 and renewed such qualification to 2014. Hence it is subject to a national income tax rate of 15% for the year 2012 and 2011.

6. INCOME TAX (continued)

TCL Communication (Ningbo) Limited, a subsidiary of the Company acquired on 25 May 2011, was given a high technology enterprise accreditation from December 2008 to December 2011 and renewed such qualification to November 2014. Hence it is subject to a national income tax rate of 15% for the year 2012 and 2011.

According to the Corporate Income Tax Law of PRC on the newly established high technology software enterprises, JRD Shanghai, a subsidiary of the Company in 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.

Expect for subsidiaries in PRC mentioned above, other subsidiaries of the Company in PRC are subject to the PRC corporate income tax rate of 25% for year 2012 and 2011.

"TMC Rus" Limited Liability Company, a subsidiary of the Company in Russia, is subject to corporate income tax rate of 20% for the year 2012 and 2011.

TCT Mobile Europe SAS, a subsidiary of the Company in France, is subject to a corporate income tax rate of 33.33% for the year 2012 and 2011. According the new French tax policy issued in 2011, entity needs to pay income tax whereas the entity has tax losses carried forward. Based on the article 2 of the supplementary budget for 2011 ("loi de finances rectificative pour 2011") dated 19 September 2011, the amount of the deficit that could be deducted from any subsequent profit is limited to EUR1,000,000 plus, if applicable, 60% of the fraction of earnings exceeding EUR1,000,000.

TCT Mobile, Inc., a subsidiary of the Company in the United States, is subject to the United States Federal tax rate of 35% and California State tax rate of 8.84% for the year 2012 and 2011.

6. INCOME TAX (continued)

TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, is 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% for the year 2012 and 2011. 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 2012 and 2011, and will remain at 30% in 2013. In all case, the payment of IETU is required only to the extent that it exceeds the ISR for the same period.

TCT Mobile-Telefones LTDA., a subsidiary of the Company in Brazil, is 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 Income Tax Regulation in Brazil.

7. DIVIDENDS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Proposed interim – 3.0 HK cents (six months ended 30 June 2011: 13.8 HK cents) per ordinary share	**33,849**	153,366

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	
	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	**104,963**	391,335

	Number of shares For the six months ended 30 June	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,119,936,376**	1,102,510,331
Effect of dilution – weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options and allotment and issuance of awarded shares	**45,269,489**	44,024,358
Weighted average number of ordinary shares in issue during the period used in the diluted earnings per share calculation	**1,165,205,865**	1,146,534,689

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.

9. 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:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 3 months	**1,632,547**	2,063,443
4 to 12 months	**249,701**	520,606
Over 12 months	**13,891**	13,289
	1,896,139	2,597,338
Impairment	**(13,306)**	(12,570)
	1,882,833	2,584,768

The credit period is generally one to three months.

10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Cash and bank balances	**728,731**	1,186,637
Pledged deposits	**4,882,892**	6,092,411
	5,611,623	7,279,048
Less: Pledged deposits		
– for factored trade receivables	**23,044**	21,575
– for interest bearing bank borrowings, banking facilities and other financial instruments	**4,859,848**	6,070,836
Cash and cash equivalents	**728,731**	1,186,637

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10. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS (continued)

As at 30 June 2012, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to HK$3,446,737,000 (31 December 2011: HK$6,444,377,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Included in the Group's cash and bank balances are deposits of HK$54,835,000 (31 December 2011: HK$484,767,000) placed with TCL Group Finance Corporation Co., Ltd., a financial institution approved by the People's Bank of China. The effective contractual interest rate for these deposits was 0.15%~1.31% (2011: 0.15%~1.31%) per annum, being the saving rate offered by the People's Bank of China.

11. INTEREST BEARING BANK AND OTHER BORROWINGS

	30 June 2012		31 December 2011	
		(Unaudited)		(Audited)
	Maturity	***HK$'000***	Maturity	*HK$'000*
Current				
Bank borrowings-secured*	**2012-2013**	**5,736,478**	2012	7,222,256
Non-current				
Due to a related company**	**2015**	**116,382**		–
		5,852,860		7,222,256

* The Group's interest bearing bank borrowings secured are bank advance comprising (i) bank borrowings of HK$4,774,069,000 (31 December 2011: HK$5,772,063,000) which are secured by the pledge of certain of the Group's time deposits; (ii) bank borrowings of HK$631,181,000 (31 December 2011: HK$1,001,191,000) which are guaranteed by the ultimate holding company; and (iii) bank borrowings of HK$331,228,000 (31 December 2011: HK$449,002,000) which are secured by export invoices amounted to HK$368,031,000 (31 December 2011: HK$498,891,000).

** Amount due to a related company is unsecured, interest-bearing loan with effective contractual interest rate of 5% per annum and with a payment term of three years.

11. INTEREST BEARING BANK AND OTHER BORROWINGS (continued)

The effective contractual interest rate for bank borrowings secured are 1.20% – 5.48% (31 December 2011: 0.86% – 3.74%) per annum.

HK$439,772,000 (31 December 2011: HK$478,404,000) of the interest bearing bank and other borrowings is denominated in RMB and others is denominated in United States dollars.

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 the invoice date, is as follows:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Within 6 months	**2,181,756**	1,929,172
7 to 12 months	**15,093**	10,463
Over 12 months	**14,421**	12,494
	2,211,270	1,952,129

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

13. SHARE CAPITAL

	Number of shares	Issued share capital *HK$'000*	Share premium *HK$'000*
Authorised:			
Ordinary shares of par value HK$1 each at 1 January 2011, 31 December 2011, 1 January 2012 and 30 June 2012	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
As 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 awarded shares	–	–	(70)
Shares purchased for Share Award Scheme	–	–	7,615
Shares repurchased	(973,000)	(973)	(3,165)
2010 final dividend declared	–	–	(630)
As at 31 December 2011 and 1 January 2012	1,114,193,373	1,114,193	282,886
Share options exercised*	12,816,712	12,817	29,097
Issue of new shares under Share Award Scheme**	1,203,280	1,203	(1,203)
Reclassification of lapsed share options	–	–	1,914
Reclassification of vested awarded shares	–	–	7,421
As at 30 June 2012	1,128,213,365	1,128,213	320,115

* During the six months ended 30 June 2012, a total of 12,816,712 share options were exercised at subscription prices ranging from HK$1.648 to HK$3.020 per share, resulting in the issue of a total of 12,816,712 ordinary shares of par value HK$1 each for a total cash consideration of HK$26,267,000.

** During the six months ended 30 June 2012, a total of 1,203,280 awarded shares vested under Share Award Scheme of the Company through new issuance of shares, resulting in the issue of a total of 1,203,280 ordinary shares of par value HK$1 each at no consideration.

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, will remain in force for 10 years from that date. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme (as refreshed by shareholders' approval in the AGM dated 10 May 2010) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 10 May 2010 (i.e., up to 108,500,152 shares). The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of 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 4 June 2012, a maximum of 75,000,000 share options under the Share Option Scheme were offered to certain individuals respectively by the Company, among which a total of 49,000,000 share options were accepted by and granted to the grantees, up to 24 September 2012, the latest practicable date of this interim report. Further details of the said granted share options were set out in the announcement of the Company dated 4 June 2012.

As at 30 June 2012, the Company had 111,278,102 share options outstanding under the Share Option Scheme. Further details of the Share Option Scheme are as follows:

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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 2012	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	At 30 June 2012	Date of grant	Exercise period (both dates inclusive) *(Notes i, ii, iii)*	Exercise price per share *(HK$)*
	Number of share options								
Directors									
Executive Directors									
Mr. LI Dongsheng	639,500	–	(639,500)	–	–	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	1,414,252	–	–	–	–	1,414,252	5 July 2007	5 April 2008 to 4 July 2013	2.423
	5,000,000	–	–	–	–	5,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	1,547,368	–	–	–	–	1,547,368	3 May 2011	3 February 2012 to 2 May 2017	7.614
	–	4,454,545	–	–	–	4,454,545	4 June 2012	4 March 2013 to 3 June 2018	2.740
	8,601,120	4,454,545	(639,500)	–	–	12,416,165			
Mr. GUO Aiping	454,045	–	(454,045)	–	–	–	16 January 2006	17 July 2006 to 15 January 2012	1.648
	831,350	–	(831,000)	–	(350)	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	1,234,258	–	–	–	–	1,234,258	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,980,000	–	–	–	–	1,980,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	3,094,737	–	–	–	–	3,094,737	3 May 2011	3 February 2012 to 2 May 2017	7.614
	–	8,909,091	–	–	–	8,909,091	4 June 2012	4 March 2013 to 3 June 2018	2.740
	7,594,390	8,909,091	(1,285,045)	–	(350)	15,218,086			
Mr. WANG Jiyang	1,320,000	–	–	–	–	1,320,000	11 March 2010	11 December 2010 to 10 March 2016	3.020
	–	7,256,498	–	–	–	7,256,498	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,320,000	7,256,498	–	–	–	8,576,498			

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 2012	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	At 30 June 2012	Date of grant	Exercise period (both dates inclusive) *(Notes i, ii, iii)*	Exercise price per share *(HK$)*
Directors (continued)									
Non-Executive Directors									
Mr. BO Lianming	719,987	–	–	–	–	719,987	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	669,000	–	–	–	–	669,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	2,388,987	1,000,000	–	–	–	3,388,987			
Mr. HUANG Xubin	102,320	–	(102,320)	–	–	–	30 June 2006	1 April 2007 to 30 June 2012	1.813
	349,806	–	–	–	–	349,806	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	418,100	–	–	–	–	418,100	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,870,226	1,000,000	(102,320)	–	–	2,767,906			
Ms. XU Fang	93,367	–	–	–	–	93,367	5 July 2007	5 April 2008 to 4 July 2013	2.423
	1,000,000	–	–	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	418,100	–	–	–	–	418,100	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	1,000,000	–	–	–	1,000,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	1,511,467	1,000,000	–	–	–	2,511,467			

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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 2012	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	At 30 June 2012	Date of grant	Exercise period (both dates inclusive) *(Notes i, ii, iii)*	Exercise price per share *(HK$)*
Directors (continued)									
Independent Non-Executive Directors									
Mr. LAU Siu Ki	300,000	–	–	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	300,000	200,000	–	–	–	500,000			
Mr. LOOK Andrew	400,000	–	–	–	–	400,000	20 September 2010	20 June 2011 to 19 September 2016	4.580
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	400,000	200,000	–	–	–	600,000			
Mr. KWOK Hoi Sing	300,000	–	–	–	–	300,000	9 August 2011	9 May 2012 to 8 August 2017	6.472
	–	200,000	–	–	–	200,000	4 June 2012	4 March 2013 to 3 June 2018	2.740
	300,000	200,000	–	–	–	500,000			
Sub-total	24,286,190	24,220,134	(2,026,865)	–	(350)	46,479,109			

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 2012	Granted during the period	Exercised during the period	Lapsed during the period	Expired during the period	At 30 June 2012	Date of grant	Exercise period (both dates inclusive) *(Notes i, ii, iii)*	Exercise price per share *(HK$)*
	Number of share options								
Employees and those who have contributed or may contribute to the Group	1,887,443	-	(1,081,156)	-	(806,287)	-	16 January 2006	17 July 2006 to 15 January 2012	1.648
	6,341,990	-	(6,208,075)	-	(133,915)	-	30 June 2006	1 April 2007 to 30 June 2012	1.813
	15,743,287	-	(1,576,950)	(63,950)	-	14,102,387	5 July 2007	5 April 2008 to 4 July 2013	2.423
	16,747,003	-	(1,923,666)	(643,334)	-	14,180,003	11 March 2010	11 December 2010 to 10 March 2016	3.020
	4,430,000	-	-	-	-	4,430,000	25 May 2010	25 February 2011 to 24 May 2016	3.462
	3,854,000	-	-	(60,000)	-	3,794,000	3 May 2011	3 February 2012 to 2 May 2017	7.614
	3,512,737	-	-	-	-	3,512,737	9 August 2011	9 May 2012 to 8 August 2017	6.472
	-	24,779,866	-	-	-	24,779,866	4 June 2012	4 March 2013 to 3 June 2018	2.740
Sub-total	52,516,460	24,779,866	(10,789,847)	(767,284)	(940,202)	64,798,993			
Total	76,802,650	49,000,000	(12,816,712)	(767,284)	(940,552)	111,278,102			

Notes:

i. On 4 June 2012, a maximum of 75,000,000 share options under the Share Option Scheme were offered by the Company with the exercise price of HK$2.74 per share, where the grantees have an option to choose from share options, awarded shares or a combination of both (if appropriate). Up to 24 September 2012, the latest practicable date of this interim report, a total of 49,000,000 share options were accepted by and granted to the grantees. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 3 June 2018. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant. Among the share options granted above, a total of 24,220,134 share options were granted to the Directors of the Company. Further details of the said share options were set out in the announcement of the Company dated 4 June 2012.

During the six months ended 30 June 2012, the Group recognized a share option expense of HK$4,340,000.

14. SHARE OPTION SCHEME (continued)

Notes: (continued)

ii. The share options granted on 16 January 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 15 January 2012. One-third of these share options are exercisable after the expiry of 6 months from the date of grant, a further one-third are exercisable after the expiry of 12 months from the date of grant, and the remaining one-third are exercisable after the expiry of 18 months from the date of grant. On 15 January 2012, the above mentioned share options were expired.

iii. The share options granted on 30 June 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 June 2012. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant. On 30 June 2012, the above mentioned share options were expired.

iv. The weighted average share price at the date of exercise for share options exercised during the reporting period was HK$3.33 (year ended 31 December 2011: HK$6.56) per share.

As at 30 June 2012, the Company had 111,278,102 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 111,278,102 additional ordinary shares of the Company. Total funds raised from exercise of the outstanding share options would be HK$375,009,000 which represents additional share capital of HK$111,278,000 and share premium of HK$263,731,000 (before issue expenses).

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 to contribute to the continual operation and development of the Group, pursuant to which existing shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in the Share Award Scheme Trust for the relevant selected employees until such shares vest with the relevant selected employees in accordance with the provisions of the Share Award Scheme B. On 17 March 2011, the 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 HK$33,469,000.

During the year ended 31 December 2011, the trustee purchased 15,778,000 shares of the Company at a total cost (including related transaction costs) of HK$71,256,000.

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 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 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. One-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant. Further details of the said awarded shares were set out in the announcements of the Company dated 3 May 2011 and 4 August 2011 respectively.

15. SHARE AWARD SCHEME (continued)

On 9 August 2011, the Board approved the grant of a total of 596,479 shares of the Company to be awarded to a Director under the Share Award Scheme B which would be transferred to the Director by the trustee at nil consideration upon vesting between 9 August 2012 and 9 August 2014. One-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant. Further details of the said awarded shares were set out in the announcement of the Company dated 9 August 2011.

On 29 August 2011, the Board approved the grant of 2,305,000 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 1 May 2012 and 1 May 2014. One-third of the said awarded shares would be vested after the expiry of 8 months from the date of grant, a further one-third would be vested after the expiry of 20 months from the date of grant, and the remaining one-third would be vested after the expiry of 32 months from the date of grant.

On 4 June 2012, the Board offered a maximum of 40,000,000 shares of the Company to be awarded to designated employees under the Share Award Scheme B, among which a total of 27,000,000 awarded shares were accepted by 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 4 June 2013 and 4 June 2015. One-third of the said awarded shares would be vested after the expiry of 1 year from the date of grant, a further one-third would be vested after the expiry of 2 years from the date of grant, and the remaining one-third would be vested after the expiry of 3 years from the date of grant. Further details of the said awarded shares were set out in the announcement of the Company dated 4 June 2012.

During the period under review, the trustee transferred a total of 198,826 shares to the awardees and a total of 1,203,280 shares were allotted and issued to awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK$629,000. As at 30 June 2012, the carrying amount of shares held for Share Award Scheme was HK$80,079,000 (31 December 2011: HK$80,708,000).

15. SHARE AWARD SCHEME (continued)

The following awarded shares were outstanding under the Share Award Scheme B of the Company during the reporting period:

	30 June 2012 Number of awarded shares						
Date of grant	Outstanding as at 1 January 2012	Granted during the period	Vested during the period	Lapsed during the period	Outstanding as at 30 June 2012	Remaining vesting period (both dates inclusive)	Fair value per share *(HK$)*
11 March 2010	500,000	–	–	–	500,000	1 July 2012 to 31 December 2012	3.02
3 May 2011	1,923,482	–	(633,806)	(22,000)	1,267,676	1 July 2012 to 3 May 2014	7.10
9 August 2011	596,479	–	–	–	596,479	1 July 2012 to 9 August 2014	5.75
29 August 2011	2,305,000	–	(768,300)	(33,334)	1,503,366	1 July 2012 to 1 May 2014	4.62
4 June 2012	–	27,000,000	–	–	27,000,000	1 July 2012 to 4 June 2015	2.74
Total	5,324,961	27,000,000	(1,402,106)	(55,334)	30,867,521		

16. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group had no significant contingent liabilities (31 December 2011: Nil).

17. CAPITAL COMMITMENTS

As at 30 June 2012, the capital commitments of the Group were as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Property, plant and equipment:		
Contracted but not provided for	**3,645**	4,311

18. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Transactions with the ultimate holding company		
Brand management fee/TCL Brand Common Fund*	**9,491**	3,816
Fees and commission	**–**	552
Purchases of raw materials**	**2,923**	334,246
Sales of products	**14**	–
Transactions with the immediate holding company		
Long-term loan obtained***	**116,382**	–
Interest expenses***	**890**	–
Transactions with fellow subsidiaries		
Purchases of raw materials**	**253,930**	124,197
Interest income	**8,482**	1,088
Rental charges**	**11,978**	6,950
Fees and commission charges	**–**	21
Sales of raw materials**	**15**	691
Purchases of products**	**25**	50
Sales of products and spare parts**	**2,176**	1,804
Value-added service income	**–**	637
Purchase of intangible assets**	**–**	7,102
Transportation expenses	**1,064**	–
Service expenses	**204**	–
Purchase of fixed line telephone business**	**–**	143,928

* Brand management fee/TCL Brand Common Fund was charged on certain percentage of sales of products with "TCL" brand. The percentage was mutually agreed between two parties.

18. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

** The sales, purchases and leasehold transactions with the related parties were made according to prices mutually agreed between two parties.

*** The long-term loan obtained from the immediate holding company is unsecured, interest-bearing with effective contractual interest rate of 5% per annum and with a payment term of three years.

(b) Other transaction with related parties

The Company's ultimate holding company has guaranteed certain bank loans made to the Group of up to HK$631,181,000 (note 11) (31 December 2011: HK$1,001,191,000) as at the end of the reporting period.

(c) Commitments with related parties

Subsidiaries of the Group have entered into several leasehold contracts with related parties, to lease certain premises for the Group's operation. Details of rental commitment related to these leasehold contracts are as follow:

Contract date	Leaser	Ending date of contract	Within one year *HK$'000*
20 December 2011 – 4 May 2012	Shenzhen TCL Central R&D Co., Ltd.	31 December 2012	11,516
29 November 2011 – 1 May 2012	Real Estate Development Ltd.	31 December 2012	764
			12,280

18. RELATED PARTY TRANSACTIONS (continued)

(d) Outstanding balances with related parties

	Due from related companies		**Due to related companies**	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current:				
Ultimate holding company	**12,267**	12,219	**10,047**	3,950
Fellow subsidiaries	**4,828**	1,459	**150,857**	161,260
	17,095	13,678	**160,904**	165,210
Non-current:				
The immediate holding company	**–**	–	**116,382**	–
	17,095	13,678	**277,286**	165,210

The balances are mainly trading balances, unsecured, interest-free and have no fixed terms of repayment, except for a long-term loan from the immediate holding company amounted to HK$116,382,000 (31 December 2011: Nil) which is unsecured, interest–bearing with effective contractual interest rate of 5% per annum and with a payment term of three years.

18. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short term employee benefits	**14,782**	13,047
Post-employment benefits	**1,199**	1,199
Equity-settled share option and Share Award Scheme expenses	**9,159**	8,811
Total compensation paid to key management personnel	**25,140**	23,057

19. COMPARATIVE AMOUNTS

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

20. APPROVAL OF THE INTERIM FINANCIAL REPORT

The condensed interim consolidated financial statements were approved and authorised for issue by the Board on 9 August 2012.

Management Discussion and Analysis

OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and other products reached 18.6 million units, representing a year-on-year ("y-o-y") decrease of 4%, while average selling price increased by 16% from US$30.4 in the first half of 2011 to US$35.3 in the first half of 2012.

- Sales of smartphones and other smart devices totaled 2.2 million units, representing a y-o-y increase of 1,220%, and its sales as a proportion of the Group's total shipment reached 11.8%.

- Revenue in the first half of 2012 surged by 11% y-o-y to HK$5,093 million, and overall gross profit margin decreased to 19.3% from 22.0% in the same period of 2011. Net profit decreased by 74% y-o-y to HK$100 million. Basic earnings per share declined to 9.37 HK cents from 35.49 HK cents for the corresponding period of the previous year.

- An interim dividend of 3 HK cents per ordinary share has been recommended.

- Despite the decline in net profit for the Period as compared to that recorded for the corresponding period of 2011, the overall financial position of the Group remains solid.

- Sustainable growth was maintained through the expansion of product diversification, product mix, market share and distribution network.

Management Discussion and Analysis

INDUSTRY OVERVIEW

The continued economic uncertainty in Europe, impact of currency fluctuations, seasonality trends and slow recovery of the US economy, together with the aggressive market competition, have continued to affect the operating environment of the global handset industry. These factors delayed the handset purchases and the switch to smartphones. The global research and consulting firm Gartner lowered its full-year mobile phone sales forecast to 1.9 billion handsets for growth of approximately 5.5%, including sales of 650 million smartphones, representing a 38% jump. Among all regions, Africa, Asia and Latin America will be the world's three fastest-growing regions.

Feature phones are still the mainstream choice of mobile phones in the emerging markets, but users are progressively switching to entry-level smartphones. Also, thanks to low-cost chipsets and improved technologies, smartphones have become more popular and affordable in emerging markets, particularly in China. As a result, mid-end and entry-level smartphones are expected to record remarkable growth and to become the growth driver in future. According to IDC, another global research and consulting firm, China's smartphone market share as a percentage of the global smartphone market is estimated to have reached 20.7%, surpassing the United States, thereby making China the largest market in the world for smartphone shipments in 2012.

BUSINESS REVIEW

For the six months ended 30 June 2012, the total sales volume of handsets and other products reached 18.6 million units, representing a decrease of 4% over the same period of 2011. A total of 15.8 million units were sold in the overseas markets, while 2.8 million units were sold in the China market, representing an increase of 67% from the same period of 2011.

Sales of smartphones and other smart devices totaled 2.2 million units, representing a year-on-year increase of 1,220%, with sales as a percentage of the Group's total shipment reaching 11.8%, while sales of feature phones dropped to 16.4 million units, representing a year-on-year decrease of 15%. The overall average selling price ("ASP") increased from US$30.4 in the first half of 2011 to US$35.3 in the same period of 2012.

The Group's revenue rose to HK$5,093 million, representing an increase of 11% year-on-year. However, the overall gross profit margin decreased from 22.0% recorded in the first half of 2011 to 19.3% in the first half of 2012 due to persistently weakened market demand as a result of the European debt crisis and the global economic downturn, as well as the decreasing price of featured phones attributed to the increasingly affordable price of smartphones.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

The Group's research and development expenses increased to HK$247 million, representing an increase of 27% over the same period of 2011. The Group has consistently invested significant funds in research and development to solidify its in-house research and development capabilities in an attempt to keep up with the technology necessary to launch advanced products, to allocate funds to heighten the competitiveness and time-to-market of new products.

Meanwhile, the Group continues to devote more efforts to advertising and promotional activities to strengthen brand and channel building in China and the overseas markets. The Group's selling and distribution costs in the first half of 2012 rose to HK$489 million, up 25% from the same period of 2011.

As sales of smartphones and other smart devices are still undergoing the ramp-up period and have not yet achieved economies of scale, with the increased investment in research and development and, selling and distribution, net profit declined to HK$100 million, representing a year-on-year decrease of 74%.

Profit attributable to owners of the parent company dropped 73% to HK$105 million. Basic earnings per share decreased to 9.37 HK cents from 35.49 HK cents over the corresponding period of the previous year. The Board of Directors recommended an interim dividend of 3 HK cents per ordinary share, a payout ratio of 32% of the profit attributable to owners of the parent during the period.

The Group has been navigating through a significant transition in an industry environment that continues to evolve and shift quickly. In the first half of 2012, the Group made progress in smartphone business development and supply chain management and homologation, but in the meantime, faced greater than expected competitive landscapes.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

During the period under review, the Group continued to expand its market presence into new and high-potential overseas markets by offering 3G Android products, which have consistently received positive feedback from the different markets, proving that the Android smartphone strategy is in the right direction. Backed by its "step-up" product strategy, the Group continued to strengthen its competitiveness in existing markets. The Group also stepped up its brand building efforts and seized all opportunities to consolidate its brand identity. For instance, the Group unveiled its ALCATEL ONE TOUCH brand enhancement strategy at the Mobile World Congress trade show in Barcelona in February 2012, a strategy that has been greeted by a positive response in the overseas markets. Participation in Milan Design Week at Aria Savona for the second consecutive year in April 2012 enabled the Group to showcase the unique design, quality of materials and refined finishing of its products to industry practitioners in order to communicate the distinctive values of ALCATEL ONE TOUCH 'Be Smart. Smiling design for a better life' to the market. Additionally, the Group used the "ALCATEL ONE TOUCH" brand to sponsor Le Tour de France in July 2012 for the second consecutive year. The global television broadcast of Le Tour de France further enhanced the Group's market presence and brand image worldwide, especially in America and Europe.

The Group's business development and network expansion plan in China is well underway as planned. In the first half of 2012, the Group continued to deepen its market penetration in China by launching affordably-priced smartphones and other smart devices with features tailor-made for local markets, such as the TCL W939, W989, W969, E906, Hello Kitty ONE TOUCH 979 and affordably priced TCL S900/ONE TOUCH 986 high-end smartphones, which enhances the cloud smartphone experience for users. The Group also launched a series of new products through a leading internet platform and successfully drew the market's attention. Furthermore, the Group has successfully strengthened its partnerships with three major Chinese telecommunication operators and expanded its sales channels in traditional retail chain stores, local distributors and online shopping platforms.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Sales volume breakdown by market

	Unit Sales of Handsets and Other Products For the six months ended 30 June		
('000 units)	**2012 (unaudited)**	2011 (unaudited)	Change (%)
Overseas	**15,779**	17,758	-11%
The PRC	**2,835**	1,693	+67%
Total	**18,614**	19,451	-4%
Including: smartphones and other smart devices	**2,204**	167	+1,220%

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

Shipments of handsets and other products to EMEA in the first half of 2012 amounted to 5.9 million units, representing a decrease of 18% compared to the corresponding period of the previous year. The weaker sales were mainly attributable to the subsequent influence of political instability in Africa and the European debt crisis. However, benefited from optimized product mix and the increased ASP, revenue increased by 5%.

During the period, the Group successfully introduced a series of new 3G Android products, including the ONE TOUCH 918, ONE TOUCH 995 and ONE TOUCH 585. The Vodafone 3G Android smartphone, the VF 860, received overwhelming responses from the market, and the Group expects it to continue to be one of its most popular products in the second half of the year. As a result of the positive market feedback for smartphone products, the Group will continue to boost smartphone sales and will launch five new smartphones to further penetrate the smartphone market in the EMEA region.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Sales volume breakdown by market (continued)

Americas

Due to the product transition period, shipments of handsets and other products to the Americas dropped 7% year-on-year, amounting to 8.8 million units during the period under review, while revenue decreased by 5%. The slow recovery of the US economy delayed the customers from smartphone replacement purchases, while feature phones are still prevalent in Latin America, though the customers are switching to smartphones at a moderate pace. Despite these developments, the Group recorded strong growth in low-cost feature phones, among which the ONE TOUCH 606 and ONE TOUCH 217 were bestsellers, especially at prepaid retailers such as Best Buy, Dollar Tree and Office Max.

ALCATEL ONE TOUCH is currently ranked the No. 4 brand in the Latin America region, including No. 1 in Columbia and No. 5 in Brazil.

The Group has further optimized its distribution channels in the open market in the first half of 2012 by cooperating with distributors. The Group continued to deepen its sales channels in the United States for tier-1 operators and also successfully expanded its sales channels. Apart from maintaining sustainable relationships with major customers and after-sales services, the Group also signed a number of major new customers, including distributors and operators in the Pacific Islands region.

The Group will continue to boost sales to enhance its market presence in the Americas market by launching twenty new models, including five smartphones. The Group will continue to build new sales channels in existing markets, including the United States, the Pacific Islands region, Mexico and Brazil.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Sales volume breakdown by market (continued)

Asia Pacific ("APAC")

In the first half of 2012, the Group's sales volume of handsets and other products across the APAC region reached 1.1 million units, remaining stable as compared to last year while revenue grew by 22%, which was mainly attributable to the Group's enhanced open-market development and market penetration of low- and mid-end phones and data cards. During the period, the Group recorded remarkable performance in the Philippines and India, and the ONE TOUCH 217D was the best seller in the APAC region.

The Group continued to expand its distribution channels by successfully signing a number of operators in the Philippines and India and entering the Laos market with 3G Android phone, ONE TOUCH 918N. The Group stepped up its efforts in brand promotion and launched large-scale promotional campaigns in several countries, which generated positive market responses.

In the second half of 2012, the Group will launch twelve new models in the APAC region, including seven smartphones and five low- to mid-end phones. The Group will continue to step up its efforts in promoting Android phones and strengthening its share in the operator market, and plans to expand to Cambodia, Myanmar and Papua New Guinea.

China

In the first half of 2012, the sales volume of handsets and other products in the China market reached 2.8 million units, representing an increase of 67% year-on-year while revenue increased significantly by 136%. Thanks to the robust sales of smartphones and other smart devices and the expansion of nationwide distribution, the China market will continue to be the Group's fastest-growing market.

Management Discussion and Analysis

BUSINESS REVIEW (continued)

Sales volume breakdown by market (continued)

China (continued)

During the period under review, the Group launched a total of twelve new handsets, including ten new smartphones and two feature phones, which received positive feedback from the market and strengthened the Group's brand image and product portfolio. Riding on its "step up" strategy, the Group introduced its flagship cloud smartphone – the TCL S900 - in May 2012. Equipped with a 1.5 GHz dual-core processor, Android 4.0 platform (Ice Cream Sandwich) and T Cloud applications, TCL S900 is sold exclusively at the affordable retail price of RMB1,999 at all Suning Appliance stores. Moreover, the affordably-priced A966 smartphone, the Group's first 3.5-inch QQ smartphone featuring a number of pre-installed Tencent cloud applications, was the best seller in the China market. The Group also launched a series of new products through a leading internet platform and successfully attracted attention in the market.

On top of the Group's cloud concept phone in the open market, the Group further capitalized on its cooperation with the country's three major telecommunication operators and achieved sales breakthroughs in various regions such as Hubei, Shanxi, Tianjin, Zhejiang, Gansu, Liaoning and Shenzhen. In particular, a number of smartphone models were slated for shipment in the first half of 2012, including the TCL C995 specially designed for China Telecom and the TCL W989 selected by China Unicom.

Going forward, the Group will continue to enhance its market penetration and product portfolio in China by launching ten new smartphone models with 4.0-inch screens and the Android 4.0 platform. The Group will also further expand its nationwide distribution networks and enhance its strategic partnerships with three operators and major retail chains in China.

BUSINESS REVIEW (continued)

Product Development

The Group enhanced its efforts in product research and development in the first half of 2012 and launched a number of new products, including the E906, W989, C995 and ONE TOUCH 995. All of these products were well-received by consumers, and many were selected by global major telecommunication operators such as China Mobile, China Unicom, China Telecom, Orange, Telefonica, etc.

The development of Android-based tablets by the Group has also made good progress. Featuring impressive design and highly flexible customization features, the new tablets are set to be an important milestone in the Group's expansion in the tablet market. In the first half of 2012, the Group successfully launched a total of three new tablets.

Recognition for the enhanced design and quality of the Group's products was proven by the prestigious industry awards that the Group won during the period under review. For instance, the ONE TOUCH 916 won the "Red Dot Design Award – Product Design 2012" for the second consecutive year in recognition of the Group's outstanding design in the smartphone industry. The award demonstrates that the Group's products exemplify the highest standards in appearance and quality.

Management Discussion and Analysis

OUTLOOK

Looking ahead, the Group expects the business environment for the industry to remain sluggish and challenging as a result of the European debt crisis and the slow recovery of the American economy, which impacted the consumer industry and development of the global handset market. The second half of 2012 is still exacting in both China and the overseas markets. It is also expected to continue to be a transition period in which more smartphones will be added to the Group's product portfolio. The Group is taking action to endure this transition period by leveraging its reputable brand, strong R&D capabilities, diversified product portfolio and extensive market presence.

Although the increased market competition continues to put pressure on the Group's margins, economies of scale will be enhanced when the volume of smartphones and other smart devices exceeds 1 million each month and more new competitive smartphone models are being launched.

The Group will launch more new models of smartphones from the third quarter of 2012 onwards, including the ONE TOUCH 997, ONE TOUCH 992D, S600, and S500, while also continuing to improve the style, functionality, quality and competitiveness of its products, especially its smartphones. The Group is also expanding its footprint to overseas markets by cooperating with more major operators in the world by launching price competitive and good quality smartphones in the coming quarters. A series of new smartphones in the third quarter is expected to help boost the sales of smartphone products in China and to lay a solid foundation for strengthening the Group's capabilities and worldwide market recognition in the future. With its enhanced R&D capabilities and increased efforts in brand promotion, the Group will continue to strengthen its brand recognition in the smartphone market.

OUTLOOK (continued)

China

Riding on the growing demand for smartphones in China market, the Group will step-up its efforts to enhance its smartphone development capabilities, to raise the competitiveness of its products, as well as to satisfy technological standards of different telecommunications operators and markets. The Group will continue to reinforce its market penetration by launching new products customized for local consumers, expanding its distribution network, and fostering partnerships with the three major telecommunication operators and major online shopping platforms in China. The Group will strengthen to cooperate with regional chain stores and distributors, namely Suning and DiXinTong, to promote its products. The Group had approximately 6,000 points of sale by the end of June 2012, while it targets to further expand its points of sale in China. Regarding brand building, the airing of the Group's advertisements via mainstream television channels, websites and magazines will continue. The Group will continue to sponsor the Shenzhen Satellite TV programme "Generation Show" to maintain its brand image. During the 2012 London Olympics period, the Group will launch more advertisements for its products to gain further exposure. As for its products, dual core products S800 and S600, will be introduced to open channels in the third quarter and are expected to receive positive feedback from the market.

Overseas

In order to further penetrate into the mid to high-end markets, the Group will enhance its efforts in promoting its 3G Android smartphones and continue to optimize its product portfolio of feature phones. The Group will also further broaden its distribution channels, foster strategic cooperation with global telecommunications operators worldwide, strengthen its strategic alliances and seize opportunities that arise in the open markets. Furthermore, the Group will step up its geographical expansion into new and high-potential markets and further its penetration into emerging markets. Moreover, more advertising and promotional activities will be launched in the third quarter. The Group will continue to participate in leading electronic trading shows such as IFA, the world's leading trade show for consumer electronics and home appliances; the Mobile World Congress trade show in Barcelona and the Consumer Electronic Show (CES) in Las Vegas; which will further improve the Group's profitability and establish strong marketing initiatives. The Group is also closely monitoring currency fluctuations and hedging mechanism is in place against exchange rate fluctuation.

Management Discussion and Analysis

OUTLOOK (continued)

Overseas (continued)

The Group aims to improve the operational efficiency of its product value chain and R&D efforts, and to speed up the time-to-market of new products so as to enhance long-term growth and profitability in future. The Group will continue to demand adequate capacity commitments from suppliers to ensure on-time delivery of components and will also support suppliers in raising production efficiency and lowering costs so as to enhance both parties' competitiveness via adequate communication with suppliers.

Given the unfavorable economic environment and the weakened consumers demand, which resulted in the drop of customers' orders, and the factors causing the significant profit decline in the first half of 2012 may persist, the management expects that significantly less profit may be recorded for the nine months ending 30 September 2012 and the year ending 31 December 2012 and the Group may even record a loss for the three months ending 30 September 2012 as compared to a profit recorded in the corresponding period in 2011. Nevertheless, upon the volume of smartphone and other smart devices getting better in the fourth quarter of 2012, which is the traditional peak season of the year for handset industry, the management expects that the situation of the Group will be improved and it is expected that the Group will recover from the expected loss for the three months ending 30 September 2012 and record a profit for the three months ending 31 December 2012.

Despite the decline in net profit for the Period as compared to that recorded for the corresponding period of 2011, the overall financial position of the Group remains solid. The Group has revised its target for the year 2012 to achieve a 15% year-on-year increase in revenue. The revised revenue target is due to the unfavorable global economic environment, especially the European debt crisis, which led to decline in selling price and gross margin of feature phones. On top of it, sales volume of smartphones have not yet achieved the economies of scale, and accordingly, the gross margin of smartphones remains relatively low. The Group will continue to invest in enhancing research and development capability, marketing and brand building in order to lay a solid foundation for product development enhancement and new product time-to-market. Still, the Group is confident in the strategy and is focused on addressing challenges in the short term and creating value for the shareholders in the long term.

Management Discussion and Analysis

FINANCIAL REVIEW

Results

For the six months ended 30 June 2012, the Group's unaudited consolidated revenue amounted to HK$5,093 million (six months ended 30 June 2011: HK$4,600 million), representing a year-on-year increase of 11% as compared to the same period last year.

The Group's gross profit margin dropped to 19.3% from 22.0% in the same period of last year.

EBITDA and profit attributable to owners of the parent were HK$160 million (six months ended 30 June 2011: HK$411 million) and HK$105 million respectively (six months ended 30 June 2011: HK$391 million). Basic earnings per share were 9.37 HK cents (six months ended 30 June 2011: 35.49 HK cents).

Inventory

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

Trade Receivables

Credit period was one to three months on average and the trade receivable (excluding factored trade receivables) turnover period was 68 days for the current period (year ended 31 December 2011: 89 days).

Significant Investments and Acquisitions

There had been no significant investment and acquisition for the six months ended 30 June 2012 and up to the date of this results announcement.

Fund Raising

There had been no fund raising for the six months ended 30 June 2012.

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

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 2012 amounted to HK$729 million, of which 24% were in Renminbi ("RMB"), 52% in United States dollars ("USD"), 6% in Euro and 18% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 30 June 2012 were HK$6,158 million, in which the interest bearing bank and other borrowings were HK$5,736 million, bank advances on factored trade receivables were about HK$306 million and long-term loan from the immediate holding company was HK$116 million . The Group's financial position remained healthy with equity attributable to owners of the parent of HK$2,550 million as at 30 June 2012 (31 December 2011: HK$2,669 million). The Group had a gearing ratio of 49% as at the end of the period under review (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$4,883 million (31 December 2011: HK$6,092 million) represented the pledged deposit for interest bearing borrowings, banking facilities and other financial instruments of HK$4,860 million (31 December 2011: HK$6,070 million) and retention guarantee for factored trade receivables of HK$23 million (31 December 2011: HK$22 million).

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Capital Commitments and Contingent Liabilities

As at 30 June 2012, the capital commitments of the Group were as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Property, plant and equipment:		
Contracted but not provided for	**3,645**	4,311

The Group had no significant contingent liabilities as at 30 June 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, 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 over 11,000 employees as at 30 June 2012. Total staff costs for the period under review were HK$586 million. The remuneration policy was reviewed in accordance with current legislation, market conditions and both individual and company performance.

Other Information

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

As at 30 June 2012, 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 *(Note i)*	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	34,102,756	1,920,000	12,416,165	48,438,921	4.29%
GUO Aiping	4,424,293	–	15,218,086	19,642,379	1.74%
WANG Jiyang	2,386,944	–	8,576,498	10,963,442	0.97%
BO Lianming	65,700	–	3,388,987	3,454,687	0.31%
HUANG Xubin	–	–	2,767,906	2,767,906	0.25%
XU Fang	–	–	2,511,467	2,511,467	0.22%
LAU Siu Ki	144,177	–	500,000	644,177	0.06%
LOOK Andrew	–	–	600,000	600,000	0.05%
KWOK Hoi Sing	–	–	500,000	500,000	0.04%

Other Information

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

(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 (Note iv)	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	475,904,300	–	–	475,904,300	5.61%
WANG Jiyang	–	–	1,190,400	1,190,400	0.01%
BO Lianming	802,340	–	6,871,400	7,673,740	0.09%
HUANG Xubin	–	–	4,833,400	4,833,400	0.06%
XU Fang	–	40,000	3,383,400	3,423,400	0.04%

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

TCL Multimedia (Note v)

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 vi)	Total	Approximate percentage of issued share capital of the Company
LI Dongsheng	30,809,848	2,538,000	7,171,956	40,519,804	3.07%
BO Lianming	98,727	–	1,616,057	1,714,784	0.13%
HUANG Xubin	60,560	–	1,092,529	1,153,089	0.09%
XU Fang	108,760	–	1,282,110	1,390,870	0.11%

Notes:

i. The "Personal interests" herein also includes awarded shares granted by the Company to the Directors as at 30 June 2012. On 9 August 2011, the Board approved the grant of a total of 596,479 shares of the Company to be awarded to a Director under the Share Award Scheme B. Further details of the awarded shares during the period under review were set out in note 15 to the financial statements.

Other Information

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

Notes (continued):

ii. On 4 June 2012, a total of 24,220,134 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 with its shares listed on the Shenzhen Stock Exchange (stock code: 000100), is the ultimate controlling shareholder of the Company.

iv On 13 January 2012, new share options were granted to the Directors under the stock option incentive plan of TCL Corp.

v. TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange (stock code: 01070), and controlled by TCL Corp., is a subsidiary of TCL Corp.

vi. On 10 May 2012, new awarded shares were granted to the Directors under the restricted share award scheme of TCL Multimedia.

Save as disclosed above, as at 30 June 2012, none of the Directors and chief executive of the Company and their associates 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 the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares 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	559,618,000	49.60%	i
Mr. WONG Toe Yeung	Beneficial owner/ Interest of spouse/ Interest held jointly with his spouse/ Interest of controlled corporation	66,558,925	5.90%	ii
Ms. LEUNG Lai Bing	Beneficial owner/ Interest of spouse/ Interest held jointly with her spouse/ Interest of controlled corporation	66,558,925	5.90%	ii

Notes:

i. Under the SFO, as at 30 June 2012, TCL Corp. was deemed to be interested in 559,618,000 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

ii. As at 30 June 2012, each of Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing as husband and wife is deemed to be interested in 66,558,925 shares of the Company, comprising (a) 29,140,000 shares which are held by Ms. LEUNG; (b) 11,129,188 shares which are jointly held by Mr. WONG and Ms. LEUNG; (c) 19,995,000 shares which are held by Top Scale Co. Ltd., a company wholly owned by Mr. WONG; and (d) share options of the Company held by Mr. WONG for subscribing 6,294,737 shares of the Company.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, there is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at 30 June 2012, had, or were deemed or taken to have interests or short positions 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 2012, complied fully with the code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviation from the Code Provisions D.1.4 and F.1.1. The reasons for the deviation are set out below.

Code Provision D.1.4 stipulates that all directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company has no formal letters of appointment for all directors as most of them have been serving as directors for a considerable period of time, a clear understanding of the terms and conditions of their appointment already exists between the Company and the directors, and so there is no written record of the same. In any event, all directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the articles of association of the Company, and on re-election of the retiring directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant directors.

Other Information

CODE ON CORPORATE GOVERNANCE PRACTICES (continued)

Code Provision F.1.1 stipulates that the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs. The company secretary of the Company, Ms. Pang Siu Yin, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. Pang has been appointed as the company secretary of the Company since September 2004. The Company has also assigned Mr. Wang Pui, Janus, Finance Director of the Company as the contact person with Ms. Pang. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. Pang through the contact person assigned. Given the long-term relationship between Ms. Pang and the Group, Ms. Pang is very familiar with the operations of the Group and has an in depth knowledge of the management of the Group. Having in place a mechanism that she will get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. Pang as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

The deviation and the reasons for such deviation have been omitted inadvertently in the corresponding paragraph in the Company's result announcement dated 9 August 2012.

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 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 Company has an audit committee (the "Audit Committee") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. 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 as set out in Appendix 14 to the Listing Rules. 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.

Other Information

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of 3 HK cents (first half of 2011: interim dividend of 13.8 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 15 October 2012, Monday. The interim dividend will be paid on or about 31 October 2012, Wednesday.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12 October 2012, Friday to 15 October 2012, Monday, 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 11 October 2012, Thursday.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong
9 August 2012