TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
TCL多媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2011

FINANCIAL HIGHLIGHTS
Unaudited results for the three months ended 31 March

	2011 *(HK$M)*	2010 *(HK$M)*	**Change**
Turnover	**6,581**	6,761	(2.7%)
Gross profit	**1,054**	1,097	(3.9%)
Operating profit	**145**	123	+17.9%
Profit attributable to owners of the parent	**34**	44	(22.7%)
Basic earnings per share *(HK cents)*	**3.13**	4.32	(27.5%)

Highlights

- For the three months ended 31 March 2011, the Group recorded approximately HK$6,581 million in turnover, representing a slight drop of 2.7% from the same period last year. Gross profit was approximately HK$1,054 million. Operating profit and profit attributable to owners of the parent amounted to approximately HK$145 million and HK$34 million respectively.

- The Group sold approximately 1.93 million sets of LCD TVs. The total sales volume of LCD TVs in the PRC Market and Emerging Markets rose by 12.0% and 111.4% year-on-year respectively.

- The Group launched a series of new products and introduced the world's first Super Smart Internet TV that employs the advanced 3D User Interface technology.

- LED backlight LCD TV sales volume to overall LCD TV sales volume rose further to 40.0% in March this year, from 27.6% in December last year.

The Board of Directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the three months ended 31 March 2011 with comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 March	
		2011	2010
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	3	**6,581,081**	6,760,632
Cost of sales		**(5,527,092)**	(5,663,193)
Gross profit		**1,053,989**	1,097,439
Other revenue and gains		**175,719**	32,405
Selling and distribution costs		**(815,566)**	(773,615)
Administrative expenses		**(181,773)**	(162,604)
Research and development costs		**(55,792)**	(41,326)
Other operating expenses		**(32,039)**	(29,754)
		144,538	122,545
Finance costs		**(101,391)**	(55,109)
Share of profits and losses of:			
Jointly-controlled entities		**(853)**	6
Associates		**14,451**	(1,672)
PROFIT BEFORE TAX		**56,745**	65,770
Income tax expense	4	**(19,561)**	(19,333)
PROFIT FOR THE PERIOD		**37,184**	46,437
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange fluctuation reserve:			
Translation of foreign operations		**21,234**	2,024
Release upon liquidation of a jointly-controlled entity		**(23,828)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		**(2,594)**	2,024
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**34,590**	48,461

	Notes	Three months ended 31 March **2011** **(unaudited)** ***HK$'000***	2010 (unaudited) *HK$'000*
Profit attributable to:			
Owners of the parent		**34,048**	43,739
Non-controlling interests		**3,136**	2,698
		37,184	46,437
Total comprehensive income attributable to:			
Owners of the parent		**30,622**	45,647
Non-controlling interests		**3,968**	2,814
		34,590	48,461
EARNINGS PER SHARE	6		
Basic		**HK3.13 cents**	HK4.32 cents
Diluted		**HK3.13 cents**	HK4.31 cents

Details of the dividends are disclosed in note 5.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2011 (unaudited)** ***HK$'000***	31 December 2010 (audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**1,463,376**	1,497,821
Prepaid land lease payments		**106,273**	106,207
Goodwill		**119,638**	119,638
Other intangible assets		**872**	965
Investments in jointly-controlled entities		**8,946**	9,268
Investments in associates		**175,650**	165,027
Available-for-sale investments		**6,677**	6,677
Deferred tax assets		**24,535**	25,736
Total non-current assets		**1,905,967**	1,931,339
CURRENT ASSETS			
Inventories		**3,210,403**	4,925,369
Trade receivables		**2,457,652**	3,236,589
Bills receivable		**2,914,603**	2,180,665
Other receivables		**1,768,285**	1,537,322
Tax recoverable		**7,069**	3,326
Pledged deposits		**1,817,655**	2,374,328
Cash and bank balances		**1,989,626**	2,132,619
		14,165,293	16,390,218
Non-current assets classified as held for sale	7	**65,215**	179,096
Total current assets		**14,230,508**	16,569,314
CURRENT LIABILITIES			
Trade payables		**4,184,320**	5,289,926
Bills payable		**1,028,022**	1,310,418
Other payables and accruals		**2,303,095**	2,371,266
Interest-bearing bank and other borrowings	8	**3,400,416**	4,863,517
Due to TCL Corporation	9	**357,222**	590,059
Due to T.C.L. Industries	9	**147,945**	–
Tax payable		**136,263**	173,591
Provisions		**420,018**	367,284
Total current liabilities		**11,977,301**	14,966,061
NET CURRENT ASSETS		**2,253,207**	1,603,253
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,159,174**	3,534,592

	Notes	**31 March 2011 (unaudited)** *HK$'000*	31 December 2010 (audited) *HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,159,174**	3,534,592
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	8	**853,609**	265,143
Deferred tax liabilities		**12,497**	12,994
Pensions and other post-employment benefits		**6,775**	6,798
Total non-current liabilities		**872,881**	284,935
Net assets		**3,286,293**	3,249,657
EQUITY			
Equity attributable to owners of the parent			
Issued capital	10	**1,086,525**	1,086,425
Reserves		**2,090,589**	2,058,021
		3,177,114	3,144,446
Non-controlling interests		**109,179**	105,211
Total equity		**3,286,293**	3,249,657

Notes:

1. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative financial instruments, which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These condensed financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and the basis of preparation adopted in the preparation of these condensed financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2010, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these condensed financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The comparative related party disclosures are amended accordingly.

While the adoption of the revised standard results in changes in the accounting policy, the revised standard does not have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

(b) *Improvements to HKFRSs 2010*

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical television segments and other product types and has three reportable operating segments as follows:

(a) Television segment – manufactures and sells television sets and trades related components in:

- the People's Republic of China ("PRC") market
- the Overseas markets

(b) AV segment – manufactures and sells audio-visual products; and

(c) Others segment – comprises of information technology and other businesses, including sales of white goods, mobile phones and air conditioners.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that bank interest income, finance costs, share of profits and losses of jointly-controlled entities and associates as well as head office and corporate expenses/(income) are excluded from such measurement.

Information regarding these reportable segments, together with their related comparative information, is presented below.

	Three months ended 31 March (unaudited)									
	Television – PRC market		Television – overseas markets		AV		Others		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales to external customers	**4,046,458**	3,715,222	**1,487,080**	2,184,991	**918,947**	701,010	**128,596**	159,409	**6,581,081**	6,760,632
Segment results	**173,240**	55,832	**(68,561)**	27,946	**14,550**	74,862	**(335)**	7,566	**118,894**	166,206
Bank interest income									**19,806**	2,301
Corporate expenses/ (income), net									**5,838**	(45,962)
Finance costs									**(101,391)**	(55,109)
Share of profits and losses of:										
Jointly-controlled entities	**(446)**	(1,255)	**(407)**	1,261	**–**	–	**–**	–	**(853)**	6
Associates	**12,360**	(38)	**–**	–	**–**	–	**2,091**	(1,634)	**14,451**	(1,672)
Profit before tax									**56,745**	65,770
Income tax expense									**(19,561)**	(19,333)
Profit for the period									**37,184**	46,437

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	Three months ended 31 March	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**2,754**	3,232
Current – Elsewhere	**16,138**	19,573
Deferred	**669**	(3,472)
Total tax charge for the period	**19,561**	19,333

5. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2011 (2010: Nil).

6. EARNINGS PER SHARE

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

	Three months ended 31 March	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in basic and diluted earnings per share calculation	**34,048**	43,739

	Number of shares Three months ended 31 March	
	2011	2010
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**1,086,460,878**	1,012,797,618
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the period	**1,685,898**	2,828,048
Weighted average number of ordinary shares in issue during the period used in diluted earnings per share calculation	**1,088,146,776**	1,015,625,666

7. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

		2011	2010
		(unaudited)	(audited)
		HK$'000	*HK$'000*
An available-for-sale investment	(a)	**65,215**	65,215
Property, plant and equipment	(b)	**–**	15,137
Investment in a jointly-controlled entity	(c)	**–**	98,744
		65,215	179,096

Notes:

(a) On 12 December 2010, the Group and Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd. ("Tianjin Vantone") entered into a transfer agreement and pursuant to which, the Group will transfer the Group's 25% equity interest in TCL Digital Science and Technology (Wuxi) Company Limited (the "Wuxi Interest") to Tianjin Vantone at a consideration of RMB57,500,000 (equivalent to approximately HK$68,290,000) (the "Share Transfer"). As the completion of the Share Transfer was subject to certain legal procedures as at 31 March 2011, the Wuxi Interest was classified as non-current assets held for sale and included as current asset in the condensed consolidated statement of financial position as at 31 March 2011.

(b) On 30 November 2010, TCL-Thomson Electronics (Thailand) Co., Ltd., a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party for the disposal of certain items of property, plant and equipment (the "Disposal Assets") at an aggregate consideration of US$8,300,000 (equivalent to approximately HK$64,600,000). Completion of the necessary legal procedures in respect of the change in ownership of the Disposal Assets took place on 21 January 2011. As at 31 December 2010, the Disposal Assets with an aggregate carrying amount of HK$15,137,000, which will be transferred to the independent third party upon the completion of the S&P Agreement, were classified as non-current assets held for sale and included as current assets in the condensed consolidated statement of financial position as at 31 December 2010.

(c) Pursuant to the board resolution of a jointly-controlled entity of the Company – Henan TCL-Melody Electronics Co., Ltd. ("Henan TCL-Melody") on 18 May 2010, it was resolved that Henan TCL-Melody should be dissolved by way of voluntary liquidation. Completion of the liquidation took place on 27 January 2011. As the liquidation plan was approved before 31 December 2010, the Group's investment in Henan TCL-Melody, with a carrying amount of HK$98,744,000, was classified as non-current assets held for sale and included as current asset in the condensed consolidated statement of financial position as at 31 December 2010.

8. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 March 2011 (unaudited)	31 December 2010 (audited)
	HK$'000	*HK$'000*
Current		
Bank loans – secured	**2,074,559**	2,387,130
Bank loans – unsecured	**1,054,201**	1,719,415
Advances from banks as consideration for discounted bills – secured	**–**	79,232
Trust receipt loans – unsecured	**112,291**	519,299
Loans from an associate – unsecured	**159,365**	158,441
	3,400,416	4,863,517
Non-current		
Bank loans – secured	**237,530**	265,143
Bank loans – unsecured	**616,079**	–
	853,609	265,143
	4,254,025	5,128,660
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,241,051**	4,705,076
In the second year	**118,765**	117,842
In the third to fifth year, inclusive	**734,844**	147,301
	4,094,660	4,970,219
Loans from an associate repayable:		
Within one year	**159,365**	158,441
	4,254,025	5,128,660

Notes:

(a) As at 31 March 2011, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) Certain of the Group's bank loans are secured by:

(i) pledge of the Group's prepaid land lease payments, buildings and plant and machinery situated in the PRC, which had aggregate carrying amounts at the end of the reporting period of approximately HK$23,704,000 (31 December 2010: HK$23,853,000), HK$249,788,000 (31 December 2010: HK$251,086,000) and HK$106,539,000 (31 December 2010: HK$108,379,000), respectively.

(ii) pledge of certain of the Group's time deposits amounting to HK$1,817,655,000 (31 December 2010: HK$2,374,328,000).

(c) TCL Corporation ("TCL Corporation") has guaranteed certain of the Group's bank loans up to HK$1,353,848,000 (31 December 2010: HK$1,333,364,000) as at the end of the reporting period.

Breach of loan covenants

As at 31 December 2010, in respect of the bank loans with an aggregate carrying amount of HK$615,181,000 (the "Syndicated Loans"), the Group breached certain of the financial covenants of the relevant loan agreement which are primarily related to the value of the Group's consolidated tangible net worth and the Group's interest coverage ratio.

Since the lenders have not agreed to waive their right to demand immediate payment as at 31 December 2010, the Syndicated Loans were classified as current liabilities in the condensed consolidated statement of financial position as at 31 December 2010. On 23 February 2011, the Group successfully obtained the necessary consent from the majority of the lenders following the Group's waiver request and certain financial covenants have been amended. As at 31 March 2011, the Group complied with all the financial covenants and the Syndicated Loans have been classified as non-current liabilities in the condensed consolidated statement of financial position according to their maturity profile.

9. DUE TO TCL CORPORATION/T.C.L. INDUSTRIES

T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries") is the immediate holding company of the Company and TCL Corporation is the ultimate holding company of the Company.

The amounts are unsecured and are repayable within one year except for an amount of HK$89,074,000 (31 December 2010: HK$88,381,000) due to TCL Corporation which was secured by certain of the Group's buildings and prepaid land lease payments with net carrying amounts of approximately HK$81,949,000 (31 December 2010: HK$83,387,000) and HK$12,029,000 (31 December 2010: HK$12,341,000), respectively. The amounts of HK$268,148,000 and HK$89,074,000 due to TCL Corporation bear interest at fixed rates ranging from 5.87% to 6.05% per annum and 5.31% per annum, respectively (31 December 2010: amounts of HK$501,678,000 and HK$88,381,000 due to TCL Corporation which bore interest at fixed rates ranging from 5.87% to 6.05% per annum and 5.31% per annum, respectively), and an amount of HK$147,945,000 due to T.C.L. Industries bears interest at fixed rate of 2.28% per annum (31 December 2010: Nil).

10. SHARE CAPITAL

	31 March 2011 (unaudited)	31 December 2010 (audited)
	HK$'000	*HK$'000*
Authorised:		
2,200,000,000 (31 December 2010: 2,200,000,000) shares of HK$1.00 (31 December 2010: HK$1.00) each	**2,200,000**	2,200,000
Issued and fully paid:		
1,086,524,547 (31 December 2010: 1,086,424,827) shares of HK$1.00 (31 December 2010: HK$1.00) each	**1,086,525**	1,086,425

During the three months ended 31 March 2011, the subscription rights attaching to 99,720 share options were exercised at the subscription prices of HK$2.45 per share, resulting in the issue of 99,720 shares of HK$1.00 each for a total cash consideration of HK$244,000 (before expenses).

BUSINESS REVIEW

During the period under review, benefiting continuously from national stimulus policies, TV replacement cycle has been sped up in the PRC Market. Coupled with the Group's successful marketing strategy and enhanced product mix, sales volume of its LED backlight LCD TVs increased significantly. Thanks to the completion of inventory clearance of obsolete TV models last year which aimed to improve product turnover management, the Group's product structure and inventory management were further optimized. As a result, turnover and gross profit grew by 8.9% and 26.7% respectively in the PRC Market from the same period last year. However, in line with the long-term development of TCL brand and customer base diversification, the Group adjusted its brand strategy in North American Markets and further optimized its strategic OEM business customer structure which caused a decline in its sales volume in certain overseas markets. In the first quarter of 2011, the Group recorded approximately HK$6,581 million in turnover, down 2.7% from approximately HK$6,761 million in the same period of 2010. Gross profit decreased slightly by 3.9% year-on-year to approximately HK$1,054 million. Profit attributable to owners of the parent and basic earnings per share amounted to approximately HK$34 million and HK3.13 cents respectively.

The Group continued to enhance the speed and efficiency of operation and marketing strategy, developed its flagship products so as to further enhance its competitiveness, strengthened sales channels and broadened customer base to increase market share. Meanwhile, the Group is dedicated to the strategy of transitioning to the high-end TV products through independent innovation and research and development, and to optimize its manufacturing capacity by promoting the integration of upstream and downstream industry chain. In addition, the Group strives to expand its Overseas Markets by strengthening local production and procurement to optimize cost structure. Through these efforts, the Group aims to become a key leader in the global TV industry and a respected and innovative leading global enterprise.

TV Sales

During the period under review, the Group sold approximately 1.93 million sets of LCD TVs, flat from the same period in previous year. The sales volume of LCD TVs in the first quarter this year accounted for 62.4% of total TV sales volume, up from 54.5% in the first quarter of 2010.

The Group capitalized successfully on the market transition towards high-end TV products, strengthened its market competitiveness through continuous improvement in product structure and adopted market-oriented sales strategies. As a result, LED backlight LCD TV sales volume to overall LCD TV sales volume increased further to 40.0% in March this year, from 27.6% in December last year. During the period under review, the Group launched a number of new TV series in the market, including the latest two Super Smart Internet TV V8200 and F3200 series. The products were well received by the market.

Sales volumes by region are indicated below:

	2011 Q1 *('000 sets)*	2010 Q1 *('000 sets)*	**Change**
LCD TVs	**1,928**	1,927	+0.1%
Of which: LED backlight LCD TVs	**599**	–	N/A
– PRC	**1,331**	1,188	+12.0%
– Overseas	**597**	739	(19.2%)
CRT TVs	**1,163**	1,612	(27.9%)
– PRC	**377**	569	(33.7%)
– Overseas	**786**	1,043	(24.6%)
Total TV sales volume	**3,091**	3,539	(12.7%)
Total AV Products sales volume	**4,403**	3,321	+32.6%

The PRC Market

The PRC government's stimulus policies continued to accelerate the TV replacement cycle, which drove the sales volume growth. The PRC Market saw strong demand for high-end TV products and product upgrade from CCFL LCD TVs to LED backlight LCD TVs. To cope with the market change, the Group further increased the proportion of LED backlight LCD TVs in its product structure and stepped up its promotion efforts. At the same time, the Group optimized its product lines by reducing the number of product models from 467 in the same period last year to approximately 270 during the period under review (inventory excluded), of which 165 were major product models. During the period under review, the PRC Market's turnover increased by 8.9% year-on-year. The total sales volume of LCD TVs reached approximately 1.33 million sets, up 12.0% year-on-year. In March this year, the total sales volume of LED backlight LCD TVs accounted for 43.4% of the LCD TV sales volume in the PRC Market, up from 26.5% in December last year.

Moreover, in view of the strong TV demand from third-tier and fourth-tier cities and rural markets, the Group further strengthened its sales channels by focusing on developing retail network in rural areas, improving the effective sales network coverage ratio and efficiency of each shop of its rural distribution channels, and developing e-business and direct sales distribution channels. Starting from the first quarter of this year, the Group has also implemented measures to standardize retail stores management in urban and rural areas. These measures will not only help improve store sales, but will also enhance the awareness and recognition of the TCL brand, which further consolidate its brand position in the PRC Market.

Overseas Markets

During the period under review, LCD TV sales volume in Emerging Markets recorded a significant year-on-year increase of 111.4%. It was mainly driven by the strong market demand, the Group's efforts on improving distribution channels, implementation of customer-focused marketing and promotion strategies and medium-to-small-size TV product launch in the markets. However, the Group's adjustment of the brand strategy in North American Markets and restructuring of Strategic OEM customer base caused a decline in the sales volume in LCD TV sales volume in Overseas Markets which decreased by 19.2% year-on-year. Therefore, the Group continues its efforts to improve the efficiency of its supply chain by local procurement and standardized components.

To meet the demand for high-end TV products from end customers, the Group rolled out a number of LED backlight LCD TV series including V6200, E5200, P51 and D3200 in Overseas Markets. Meanwhile, the Group successfully introduced LED backlight LCD TVs to markets in Brazil, India, Russia, Middle East, etc. In addition, the Group started up TCL-branded TV business in European Markets such as Spain, Poland, Belgium, Switzerland, Ukraine, etc. Its dual-brand strategy has begun to show results. In North American Markets, the Group also continued to explore business opportunities with many international brands and started business relationships with various regional distributors.

AV Products

In the first quarter of this year, since the Group commenced mass production and launched new product series of 2011 a quarter ahead of schedule compared to last year, the Group had launched approximately 130 new product series, including DVD, BD, other AV and portable products. At the same time, as the Group's overall competitiveness in the video disc player business continued to improve, and its market share increased globally, both factors led to a year-on-year surge of 32.6% in sales volume to approximately 4.4 million sets in the first quarter of this year, making it the best first quarter of the Group's record in terms of sales volume.

As a result of rising raw material costs and increasing minimum wages in the PRC, the cost of production has come under upward pressure, while growing demand from clients for products with lower-cost solutions has resulted in a narrower gross margin. Furthermore, the earthquake in Japan has made it difficult to schedule for raw materials supplies which impacts product delivery. The impact on some of the customers is expected to continue for the next quarter.

R&D

In order to satisfy the market demands, the Group launched 16 new TV products including 3D LCD TV series, LED backlight LCD TV series, and CCFL LCD TV series during the period under review, and applied for 32 technology patents. The Group also introduced the world's first Super Smart Internet TV that employs the advanced 3D UI (User Interface) technology and the first TV-based application store in March, which will offer customers many third party applications for downloads on their TVs.

Outlook

Looking ahead, the global economy is on its way to recovery while the PRC's economy is also improving along with enhancing living standards of its people. However, due to rising inflationary pressure in the PRC and tight raw materials supply following the earthquake and tsunami in Japan, the road ahead for the global TV industry will continue to be challenging. In view of this, the Group will persist in enhancing its speed and efficiency through development strategy of vertical integration, innovation and internationalization, and will also actively look for alternative resources for its TV and AV businesses in response to the impact of tight raw materials supply.

The PRC Market remains a major growth driver for the Group's business. As the TV product transition continues to accelerate and the trend moves rapidly towards high-end consumption, the Group will enhance its independent innovation and R&D capabilities and increase the proportion of LED backlight LCD TVs in the product mix, while further exploring the enormous smart internet TV market in the PRC. The Group's marketing focus will be put on Super Smart Internet TV and 3D progressive scanning technology in 2011 and key products such as polarized 3D and shutter 3D TVs will be launched. The Group will also proactively consider forming partnerships with Internet TVs middleware companies so as to enhance the competitiveness of its products, laying a solid foundation for capturing the 3D and smart internet TV market. Meanwhile, the Group will further strengthen its distribution channels which will help drive the sales growth in third-tier and fourth-tier cities and rural markets to increase market share. It will continue to benefit from opportunities brought by the PRC government's stimulus policies.

In Overseas Markets, strong demand in Emerging Markets is expected to continue. The Group will continue its efforts in promoting TCL-branded products, strengthening overseas distribution network, focusing on resources and markets to seize opportunities brought by product upgrade from CCFL LCD TVs to LED backlight LCD TVs in Emerging Markets and seeking growth potential from major markets in Brazil, India, Russia, Middle East, etc. to consolidate its leading position in the global TV industry. The Group will also continue to implement stringent cost control measures in the European Markets and to develop its own-branded business synchronously with OEM business model to increase sales volume and enhance profitability.

Turning to the AV business, in view of rising cost pressure and market transition from video disc player products to other AV products, the Group will leverage on its accumulated strengths in technologies and customer base to develop new product lines with existing customers. In terms of cost control, the Group will seek to increase output per capita through measures such as improving production technology, and streamlining production process and indirect workforce. In addition, the Group has established overseas manufacturing bases in the regions with cost and logistic advantages based on customers' needs. These overseas bases have already started mass production and delivery. Increased productivity and globalised industry chain have relieved rising cost pressure to a certain extent and have enhanced the competitiveness of the Group's products.

In addition, the Group is committed to enhancing the integration of its industry value chain. The production plant for 8.5 generation LCD panel of Shenzhen Huaxing Photoelectrics Technology Company Limited, a joint venture between TCL Corporation (the Group's ultimate holding company) and the Shenzhen Municipal Government, will commence mass production in the fourth quarter of this year. The plant will have the most advanced manufacturing facilities in the PRC for the production of 8.5 generation TFT-LCD panels outside Japan and South Korea. It demonstrates that TCL will extend its industry value chain to core components manufacturing. This will make TCL become the only TV manufacturer in the PRC with fully integrated supply chain and sales capability.

With the growing competition in the industry as a result of TV upgrade and transition, the Group will continue to put focus on strengthening its R&D capabilities, adjusting its product mix based on market demand, enhancing its industry value chain to boost its competitiveness, maintaining its leading position in the TV market and laying a solid foundation for long term sustainable development.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

There was no significant investment, acquisition and disposal for the three months ended 31 March 2011.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, factorings, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance of the Group as at 31 March 2011 amounted to HK$1,989,626,000 of which 2.9% was maintained in Hong Kong dollars, 35.0% in US dollars, 46.5% in Renminbi, 8.6% in Euro and 7.0% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2010 and there was no asset held under finance lease as at 31 March 2011.

As at 31 March 2011, the Group's gearing ratio was 30.0% which is calculated based on the Group's net borrowing of approximately HK$951,911,000 (calculated as total interest-bearing borrowings less pledged deposits and cash and bank balances) and the equity attributable to owners of the parent of approximately HK$3,177,114,000. The maturity profile of the borrowings is from one to four years.

Pledge of Assets

Please refer to notes 8 and 9.

Capital Commitments and Contingent Liabilities

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2010.

Pending Litigations

Save as disclosed in the Group's results announcement of the year ended 31 December 2010, the Group had not been involved in any other material litigation for the three months ended 31 March 2011.

On 7 April 2011, in relation to the Alleged Claims (as defined in the Group's results announcement of the year ended 31 December 2010) made by the official liquidator of TTE Europe SAS ("TTE Europe", a wholly-owned subsidiary of the Group which had been deconsolidated in 2007) (the "Receiver") in the Commercial Court of Nanterre of France against, amongst others, various companies in the Group, various companies in the Group reached a settlement with the Receiver (the "Settlement"). Pursuant to the Settlement, the Group shall pay Euro 11,666,666 (equivalent to approximately HK$128,456,000) to the Receiver as the full and final settlement of the Alleged Claims.

Of those litigations disclosed in the Group's results announcement of the year ended 31 December 2010, only the Labour Claim (as defined in the Group's results announcement of the year ended 31 December 2010) made by a group of former employees of TTE Europe against the Company, TTE Europe and TCL Belgium S.A. (a wholly-owned subsidiary of the Company) is still outstanding. The Industrial Tribunal of Boulogne-Billancourt of France has heard the case and the judgment will be released in due course.

In the Group's financial results of the year ended 31 December 2010, a provision in the sum of Euro 10,000,000 (equivalent to approximately HK$110,105,000) has been made for the claims in relation to TTE Europe. In the Group's financial results for the three months ended 31 March 2011, a further provision in the sum of Euro 1,666,666 (equivalent to approximately HK$18,351,000) has been made to cover the incremental costs brought upon by the Settlement. The Group has also made appropriate provision based upon the merit and the likely outcome of outstanding litigation, including the Labour Claim.

Foreign Exchange Exposure

Due to its international presence and operations, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. 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.

Employee and Remuneration Policy

The Group had a total of 26,854 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and the Company's performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 24,848,371 shares remained outstanding at the end of the reporting period.

An award scheme dated 6 February 2008 (the "Award Scheme") was also adopted by the Company pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Award Scheme.

PURCHASES, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of shares for the three months ended 31 March 2011.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the three months ended 31 March 2011, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the three months ended 31 March 2011, including the accounting principles adopted by the Group, with the Company's management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 29 April 2011

As at the date of this announcement, the Board comprises LI Dongsheng, BO Lianming, ZHAO Zhongyao, YU Guanghui and XU Fang as executive directors, Albert Thomas DA ROSA, Junior, HUANG Xubin and LEONG Yue Wing as non-executive directors and TANG Guliang, Robert Maarten WESTERHOF and WU Shihong as independent non-executive directors.