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**TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED**

**中慧國際控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1143)**

**INTERIM RESULTS 2011 ANNOUNCEMENT**

**RESULTS HIGHLIGHTS**

- Achieved revenue of HK\$598.4 million, increased by 21.8% year over year
- Resolved the payment of an interim dividend of HK2.0 cents per share
- Proceeds were applied in accordance with the prospectus of the Company dated 14 January 2011

The board (the “Board”) of directors (the “Directors”) of Telefield International (Holdings) Limited (the “Company”) is pleased to announce the consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2011, which have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. The 2011 consolidated interim results of the Group have been reviewed by the audit committee and auditors of the Company, and approved by the Board on 19 August 2011.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2011*

		<b>Six months ended</b>	
		<b>30 June</b>	
		<b>2011</b>	2010
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue</b>	3	<b>598,350</b>	491,169
Cost of goods sold		<u>(482,357)</u>	<u>(380,164)</u>
<b>Gross profit</b>		<b>115,993</b>	111,005
Other income		<b>11,093</b>	4,125
Selling and distribution expenses		<b>(41,214)</b>	(36,095)
Administrative expenses		<b>(37,690)</b>	(43,267)
Other operating expenses		<u>(18,326)</u>	<u>(7,138)</u>
		<b>29,856</b>	28,630
<b>Profit from operations</b>			
Finance costs	4	<u>(3,852)</u>	<u>(1,672)</u>
		<b>26,004</b>	26,958
<b>Profit before tax</b>			
Income tax expense	5	<u>(3,849)</u>	<u>(6,462)</u>
<b>Profit for the period</b>	6	<b>22,155</b>	20,496
<b>Other comprehensive income for the period, net of tax</b>			
Exchange differences on translating foreign operations		<u>(1,302)</u>	<u>1,265</u>
<b>Total comprehensive income for the period</b>		<u><b>20,853</b></u>	<u>21,761</u>
<b>Profit attributable to:</b>			
Owners of the Company		<b>26,913</b>	27,726
Non-controlling interests		<u>(4,758)</u>	<u>(7,230)</u>
		<u><b>22,155</b></u>	<u>20,496</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>27,040</b>	28,991
Non-controlling interests		<u>(6,187)</u>	<u>(7,230)</u>
		<u><b>20,853</b></u>	<u>21,761</u>
<b>Earnings per share</b>	8		
Basic (HK cents)		<u><b>6.83</b></u>	<u>9.24</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

		30 June 2011 <i>HK\$'000</i> (unaudited)	31 December 2010 <i>HK\$'000</i> (audited)
<b>Non-current assets</b>			
Fixed assets		67,154	63,324
Intangible assets		53,610	39,715
Deferred tax assets		6,633	7,690
		127,397	110,729
<b>Current assets</b>			
Inventories		149,727	151,862
Trade receivables	9	141,903	154,338
Prepayments, deposits and other receivables		45,599	40,330
Derivative instruments		–	2,361
Current tax assets		1,042	1,601
Bank and cash balances		184,513	58,913
		522,784	409,405
<b>Current liabilities</b>			
Trade payables	10	118,990	115,313
Accruals and other payables		107,520	107,677
Financial liabilities at fair value through profit or loss		6,619	8,321
Derivative instruments		3,197	154
Bank borrowings		44,671	62,613
Product warranty provision		14,856	13,355
Current tax liabilities		5,944	7,780
		301,797	315,213
<b>Net current assets</b>		220,987	94,192
<b>Total assets less current liabilities</b>		348,384	204,921
<b>Non-current liabilities</b>			
Financial liabilities at fair value through profit or loss		11,915	17,770
Licence fee payable		17,157	–
Deferred tax liabilities		13,799	14,880
		42,871	32,650
<b>NET ASSETS</b>		305,513	172,271

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
<b>Capital and reserves</b>		
Share capital	4,117	–
Reserves	<u>322,302</u>	<u>187,165</u>
Equity attributable to owners of the Company	<b>326,419</b>	187,165
Non-controlling interests	<u>(20,906)</u>	<u>(14,894)</u>
<b>TOTAL EQUITY</b>	<b><u>305,513</u></b>	<b><u>172,271</u></b>

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

### **1. BASIS OF PREPARATION**

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2010 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2010 except as stated below.

### **2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2011. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

### 3. REVENUE AND SEGMENT INFORMATION

	<b>Electronic Manufacturing Services ("EMS") HK\$'000 (unaudited)</b>	<b>Licensed Brand Business HK\$'000 (unaudited)</b>	<b>Own Brand Business HK\$'000 (unaudited)</b>	<b>Total HK\$'000 (unaudited)</b>
<b>6 months ended 30 June 2011:</b>				
Revenue from external customers	404,088	77,427	116,835	598,350
Intersegment revenue	50,901	–	–	50,901
Segment profit/(loss)	37,383	1,392	(7,800)	30,975
<b>As at 30 June 2011:</b>				
Segment assets	<u>561,048</u>	<u>126,622</u>	<u>84,857</u>	<u>772,527</u>
<b>6 months ended 30 June 2010:</b>				
Revenue from external customers	327,949	79,213	84,007	491,169
Intersegment revenue	40,042	–	–	40,042
Segment profit/(loss)	42,112	1,312	(14,382)	29,042
	(audited)	(audited)	(audited)	(audited)
<b>As at 31 December 2010:</b>				
Segment assets	<u>422,959</u>	<u>100,676</u>	<u>91,416</u>	<u>615,051</u>
			<b>Six months ended 30 June</b>	
			<b>2011</b>	<b>2010</b>
			<b>HK\$'000</b>	<b>HK\$'000</b>
			<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Reconciliations of segment profit or loss:</b>				
Total profit of reportable segments			<b>30,975</b>	29,042
Elimination of intersegment profits			<b>(4,971)</b>	(2,084)
Consolidated profit before tax for the period			<u><b>26,004</b></u>	<u>26,958</u>

#### 4. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank overdraft interest	6	1
Bank loans interest	535	480
Interest on import/export loans	157	171
Interest on factoring loans	2,018	1,020
Other interest expense	1,136	–
	<u>3,852</u>	<u>1,672</u>

#### 5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
– Hong Kong Profits Tax	3,587	4,154
– Overseas	559	1,400
	<u>4,146</u>	<u>5,554</u>
Deferred tax	(297)	908
	<u>3,849</u>	<u>6,462</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% (2010: 16.5%) based on estimated assessable profit for the period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 6. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging/(crediting) the following:

	<b>Six months ended 30 June</b>	
	<b>2011</b> <i>HK\$'000</i> <b>(unaudited)</b>	<b>2010</b> <i>HK\$'000</i> <b>(unaudited)</b>
Amortisation of intangible assets (included in selling and distribution expenses)	3,654	3,787
Allowance for / (reversal of allowance for) receivables	1,173	(93)
Bad debt written off	1,339	–
Cost of goods sold		
Cost of inventories sold	477,374	380,065
Allowance for inventories	7,941	2,965
Reversal of allowance for inventories	(2,958)	(2,866)
	482,357	380,164
Interest income	(103)	(16)
Depreciation	6,777	6,175
Directors' emoluments		
As directors	270	–
For management	2,854	2,865
	3,124	2,865
Research and development expenditure	10,866	6,061
Exchange (gain)/losses, net	(5,025)	4,316
Fair value loss on derivative instruments	3,197	61
Fair value (gain)/loss on financial liabilities at fair value through profit or loss	(3,224)	871
Loss on disposal of fixed assets	–	7
Operating lease charges		
Land and buildings	5,928	5,656
Staff costs including directors' emoluments		
Salaries, bonus and allowances	90,344	73,084
Retirement benefit scheme contributions	2,292	3,406
	92,636	76,490

Because of the change in the market conditions of the Group's products during the period, there was a significant increase in the net realisable value of inventories. As a result, allowance made in prior years against the inventories of HK\$2,958,000 was reversed during the period.

## 7. DIVIDENDS

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Final dividend for the year ended 31 December 2010 approved and paid – HK1.8 cents (2009: HK\$ Nil) per ordinary share	7,411	–
Proposed interim dividend – HK2.0 cents (2010: HK\$ Nil) per ordinary share	8,234	–
	<u>15,645</u>	<u>–</u>

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
<b>Earnings</b>		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	<u>26,913</u>	<u>27,726</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares used in basic earnings per share calculation	<u>394,242,884</u>	<u>300,000,000</u>

In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2011 and 2010, the 10,000 shares issued due to the Group Reorganisation during the year ended 31 December 2010 and 299,990,000 shares to be issued pursuant to the Capitalisation Issue have been regarded as if these shares were in issue since 1 January 2010. Further details of the Group Reorganisation are set out in the paragraph headed “Group reorganisation” in Appendix VI to the prospectus of the Company dated 14 January 2011 (the “Prospectus”).

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the two periods.

## 9. TRADE RECEIVABLES

The Group's trading terms with customers are mainly on credit. During the period, the credit term generally range from 30 to 180 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The Group's aging analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
0 – 90 days	<b>136,720</b>	148,023
91 – 180 days	<b>3,389</b>	4,057
181 – 365 days	<b>1,692</b>	2,198
Over 365 days	<b>102</b>	60
	<b><u>141,903</u></b>	<u>154,338</u>

## 10. TRADE PAYABLES

The Group's aging analysis of the trade payables, based on invoice date, is as follows:

	<b>30 June 2011 HK\$'000 (unaudited)</b>	31 December 2010 HK\$'000 (audited)
0 – 90 days	<b>113,677</b>	111,062
91 – 180 days	<b>2,873</b>	1,915
181 – 365 days	<b>875</b>	771
Over 365 days	<b>1,565</b>	1,565
	<b><u>118,990</u></b>	<u>115,313</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS OVERVIEW**

#### **Overview**

As a leading Electronics Manufacturing Services (the “EMS”) provider, the Group was able to generate more revenue with increased customer orders during the six months ended 30 June 2011 (the “Period”). However, rising Renminbi (the “RMB”) exchange rate, raw materials and labour costs resulted in higher production costs for most manufacturers. In the wake of the earthquake that struck Japan in March of this year, the supply of raw materials tightened, which further raised costs. In view of these, the Group remained keen on strengthening its cost controls to sustain long-term growth.

With increased revenue from the EMS segment and growing branded business, the Group’s revenue rose by 21.8% to HK\$598.4 million, up from HK\$491.2 million in the last corresponding period. The Group managed to minimise the impact of cost pressure during the Period through effective cost-cutting measures, including increased automation of manufacturing processes, bulk purchase of raw materials to benefit from greater discounts, and adjustment of selling prices. The Group’s long-standing relationship with suppliers also ensured the stable supply of raw materials at reasonable costs. Consequently, the Group recorded a gross profit of approximately HK\$116.0 million (2010: HK\$111.0 million), though gross profit margin slightly decreased to 19.4% (2010: 22.6%). Profit attributable to owners of the Company amounted to approximately HK\$26.9 million (2010: HK\$27.7 million).

The Board declared an interim dividend of HK2.0 cents for the Period (2010: HK\$Nil).

The Group maintained a sound financial position during the Period, with cash and cash equivalents totalling HK\$184.5 million (At 31 December 2010: HK\$58.9 million).

#### **EMS Business**

The EMS business continued to be a major revenue generator for the Group, achieving growth of 23.2% to HK\$404.1 million (2010: HK\$327.9 million), and accounting for 67.5% of total turnover for the Period.

The Group’s expansion into niche markets, where it can generate a higher margin, progressed well during the Period. Its first health care electronic product – an electronic teeth whitener – started to contribute revenue to the Group since an initial shipment was made at the end of last year. The Group remains keen on developing products with high-growth potential. New products, including a gaming and entertainment mobile system, were launched during the second quarter of 2011. The management expects new products to contribute more significantly to the Group’s income in the future.

## **Branded Businesses**

Leveraging an established distribution network and wider product offering, the Group's branded business achieved steady growth. Revenue amounted to HK\$194.3 million, representing an increase of 19.0%, up from HK\$163.2 million recorded in the last corresponding period.

For the licensed brand business, which included distribution of small and medium business phone systems (the "SMB phone systems") in North America, revenue reached HK\$77.4 million, accounting for approximately 12.9% of total revenue (2010: 16.1%).

The Group's own brand business refers to the assembly and/or distribution of portable storage devices and/or multimedia products under the "TrekStor" brand in Europe. By stepping up efforts to re-establish relations with customers backed by new product development, the Group is delighted to report satisfactory results from the operation, as well as improved efficiency. The management expects the business to reach breakeven point by end of the year.

## **Geographical Analysis**

Benefiting from increased revenue from the "TrekStor" own brand business, total revenue from the European markets rose by 42.2% to HK\$314.7 million (2010: HK\$221.4 million), accounting for 52.6% of the Group's turnover. Due to a slower-than-expected growth in the US economy, revenue from the region decreased by 7.0% to HK\$157.4 million (2010: HK\$169.2 million), which represents 26.3% of total turnover. Revenue from Asia-Pacific countries and Japan climbed 25.5% to HK\$126.3 million from HK\$100.6 million in the last corresponding period and made up 21.1% of total turnover, partly due to the result of business expansion in those regions.

## **FINANCIAL HIGHLIGHTS**

### **Turnover**

Turnover of the Group amounted to HK\$598.4 million for the Period, representing an increase of 21.8% from the same period last year.

### **Profitability and Margin**

The gross profit of the Company increased from HK\$111.0 million for the six months ended 30 June 2010 to HK\$116.0 million for the Period, as a result of the increase in turnover recorded.

The total operating expenses increased from HK\$88.2 million for the six months ended 30 June 2010 to HK\$101.1 million for the Period, include the impact of the increase of HK\$4.8 million in research and development expenses and the increase of HK\$1.8 million in the listing expenses written off.

The consolidated net profit attributable to owners of the Company remains stable at HK\$26.9 million for the Period (2010: HK\$27.7 million).

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group maintained a sound financial and liquidity position during the Period. As at 30 June 2011, the Group maintained a balance of cash and cash equivalents of HK\$184.5 million, the majority of which were denominated either in HK dollars or RMB with HK\$38.7 million denominated in US dollars. The Group's current ratio reflects a strong position at 1.73 times.

As at 30 June 2011, total interest-bearing bank borrowings were HK\$44.7 million comprised primarily of bank loans and overdrafts and import/export loans. These borrowings are all repayable within one year. The majority of these borrowings were denominated in US dollars, Hong Kong dollars or Euro and the interest rates applied were primarily subject to floating rate terms.

The increase in net cash balance of HK\$125.6 million was mainly due to the proceeds received from the Company's initial public offering in January 2011.

As at 30 June 2011, the total equity attributable to owners of the Company amounted to HK\$326.4 million. The Group had a net cash balance of HK\$139.8 million representing total cash and cash equivalents less total interest-bearing bank borrowings such that no gearing ratio applies.

## **EXCHANGE RISK EXPOSURE**

The majority of the Group's sales and purchases are denominated in US dollars, RMB and Euro. Due to the fact that the Hong Kong dollar is pegged to the US dollar, the Group's exposure to this foreign exchange risk is low. The Directors monitor the Group's foreign currency exposure closely and the Group keeps hedging its exposure to RMB and Euro by maintaining deposits in RMB in advance to fulfill its obligation of operating overhead in the production facilities in Mainland China and the use of foreign currency forward contracts to cover its exposure in Euro.

## **CAPITAL EXPENDITURE AND COMMITMENTS**

During the period, the Group incurred total capital expenditures of approximately HK\$10.0 million for the additions to property, plant and equipment.

As at 30 June 2011, the Group had contracted but not provided for capital commitments, mainly for the acquisition of property, plant and equipment, of HK\$2.0 million.

## **CONTINGENT LIABILITIES**

As at 30 June 2011 and up to the date of this report, the Group was not aware of any material contingent liabilities.

## **PLEDGE OF ASSETS**

As at 30 June 2011, none of the Group's assets was pledged.

## **ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT**

During the Period, there was no material acquisition, disposal or investment by the Group.

## **HUMAN RESOURCES**

As at 30 June 2011, the Group had approximately 3,100 employees in various operating units in Hong Kong, USA, Germany, Japan and PRC. In order to attract and retain high quality talents to ensure smooth operation and cater for the Group's constant expansion, it offers competitive remuneration packages, with reference to market conditions, individual qualifications and experience.

## **SHARE OPTION SCHEME**

The Company has conditionally adopted a share option scheme (the "Scheme") on 31 December 2010. The Scheme shall be valid and effective for a period of ten years commencing from the date on which the Scheme was adopted, subject to the early termination provisions contained in the Scheme.

No option was granted during the Period and there were no outstanding options at 30 June 2011.

## **USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING**

After deduction of related expenses, the proceeds from the Company's issue of new shares (including shares issued on the exercise of over allotment option) for listing on the Stock Exchange in January 2011, amounted to approximately HK\$119.6 million. The Group intends to apply the net proceeds for the purposes as set out in the section "Future Plans and Use of Proceeds" in the prospectus of the Company dated 14 January 2011. As at 30 June 2011, approximately HK\$6.5 million was utilised for the expansion of brand businesses, approximately HK\$9.2 million for the expansion of production facilities and the remaining balance of the net proceeds was placed in certain financial institutions and licensed banks in Hong Kong as short-term deposits.

## **PROSPECTS**

In view of market uncertainties driven by the sovereign debt crisis in Europe and recent downgrading of the US government credit rating, the outlook for the consumer electronics sector remains cautious. With the RMB continuing to appreciate and inflationary pressure persisting despite a slowdown in economic recovery, the management expects the business environment to become more challenging in the second half of 2011. Nevertheless, the Group will continue to implement cost-control measures and capture business opportunities that deliver promising returns, allowing for steady growth.

With respect to the EMS business, the Group will maintain focus on the niche markets that allow it to enjoy higher margins. The Group's ultrasound imaging equipment co-developed with a research institution in Hong Kong and other health care electronics products are progressing per schedule and more products are now scheduled for launch. The Group is also exploring opportunities in telecommunications products in new markets in Asia.

Considering Asia-Pacific's rising affluence and greater economic potential, China in particular, the Group will seek to tap these markets by applying a business model that has been tested and honed in Europe and the US. The opening of an operation unit in Japan earlier this year and the planning of establishing a Shanghai office in the PRC will help explore the respective markets. The Group's edge in research and development has been pivotal to successfully attracting customers; therefore it will devote more resources and capital expenditure towards this important area as well.

Subject to prevailing market conditions, the Group will bolster its expansion efforts and examine the possibilities of the distribution of SMB phone systems in Central and South America following the extension of a license agreement regarding its licensed brand business. Moreover, the Group will extend its distribution business to Asia by first introducing computer and gaming accessories in China and Hong Kong later in the year.

The Group will remain cautious with its expansion plans and will also focus on strengthening its core fundamentals. With proven strategies in place, the management is confident about the Group's ability to achieve sustainable growth.

## **OTHER INFORMATION**

### **Interim Dividend**

The Board has declared an interim dividend of HK2.0 cents per ordinary share in respect of the Period, payable on 29 September 2011 to shareholders whose names appear on the register of members of the Company as at the close of business on 21 September 2011.

### **Closure of Register of Members**

The register of members of the Company will be closed from 19 September 2011 to 21 September 2011, both days inclusive, during which period no transfer of shares will be effected.

To ensure the entitlement to the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 16 September 2011.

### **Purchase, Sale or Redemption of Listed Shares**

The shares of the Company were first listed on the main board of the Stock Exchange on 27 January 2011. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities after listing.

## **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”) as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors’ securities transactions from the Listing Date and up to the date of this interim report.

## **Corporate Governance**

Telefield International (Holdings) Limited is incorporated in the Cayman Islands and has its shares listing on the Hong Kong Stock Exchange on 27 January 2011 (the “Listing Date”). The corporate governance rules applicable to the Company is the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules. Throughout the period from the listing date to 30 June 2011, the Company has complied with all the applicable code provisions of the Code, except for the deviation from code provision A.2.1 of the Code as described below.

### **Code Provision A.2.1**

Under code provision A.2.1 of the Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer” and this is deviated from the code provision A.2.1 of the Code. Mr. Cheng Han Ngok Steve, who acts as the chairman and the executive Director of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. The roles of the respective executive Directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong consistent leadership enabling the Group to operate efficiency.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility to comply with the said code provision. If compliance with the said provision is determined, appropriate persons will be nominated to assume the different roles of chairman and chief executive officer.

The Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, with written terms of reference which are of no less exacting than those set out in the Code.

## **Audit Committee**

The Audit Committee currently has three members comprising Dr. Kwan Pun Fong Vincent (Chairman), Mr. Au-Yang Cheong Yan Peter and Dr. Xue Quan, all being independent non-executive Directors. The primary duties of the Audit Committee are mainly to review and supervise the financial Reporting process and internal control system of the Group.

The Audit Committee held three meetings after the Listing date to the date of this Interim Report. All members of the Audit Committee attended the meetings.

On 15 August 2011, the Audit Committee met to review the unaudited Group financial statements and reports for the Period in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval.

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective internal control system. The Audit Committee reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. Based on the information received from the Company's management, the Audit Committee is satisfied that the overall financial and operational controls for the Group continues to be effective and adequate.

By Order of the Board  
**TELEFIELD INTERNATIONAL (HOLDINGS) LIMITED**  
**Cheng Han Ngok Steve**  
*Chairman*

Hong Kong, 19 August 2011

*As at the date of this announcement, the executive Directors are Cheng Han Ngok Steve, Poon Ka Lee Barry, Ng Kim Yuen, Fok Pui Yin and Lee Kai Bon, and the independent non-executive Directors are Au-Yang Cheong Yan Peter, Kwan Pun Fong Vincent and Xue Quan.*