Annual Report 2009

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Stock code: 02618

TCL

创意感动生活
The Creative Life

CORPORATE PROFILE

TCL Communication Technology Holdings Limited ("TCL Communication" or the "Company") together with its subsidiaries (collectively the "Group") engages in the design, manufacture and marketing of a wide range of mobile handsets in global markets. The Group's handsets are sold in the PRC, Europe and Latin America under two key brands - "TCL" and "Alcatel". TCL Communication operates its highly efficient manufacturing plants and R&D centres in various provinces of China with headquarter in Shenzhen, China. Currently, TCL Corporation ("TCL Corp.") is the Group's largest shareholder.

For more information, please visit the Group's website: tclcom.tcl.com.

CONTENTS

Financial Highlights	2
Corporate Structure	4
2009 Year in Review	5
Chairman's Statement	6
Management Discussion and Analysis	10
Directors and Senior Management	18
Corporate Information	25
Corporate Governance Report	28
Human Resources and Social Responsibilities	41
Report of the Directors	42
Independent Auditors' Report	56
Consolidated Income Statement	58
Consolidated Statement of Comprehensive Income	59
Consolidated Statement of Financial Position	60
Consolidated Statement of Changes in Equity	62
Consolidated Statement of Cash Flows	63
Statement of Financial Position	65
Notes to Financial Statements	66
Five Year Financial Summary	156

FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY

(HK$'000)	2009	2008
Revenue	4,360,886	4,538,281
Gross profit	948,690	811,618
Gross profit margin (%)	22%	18%
Profit before the effects of convertible bonds	87,881	372
Effects of convertible bonds:		
– Changes in fair value of the derivative component of the convertible bonds	(58,037)	68,078
– Interest on convertible bonds	(6,839)	(39,959)
Profit attributable to owners of the parent	23,005	28,491
Basic EPS (HK cents) (Restated)	2.51	3.11

FINANCIAL POSITION

(HK$'000)	2009	2008 (Restated)
Property, plant and equipment and prepaid land lease payments	235,882	278,012
Net current assets	967,835	687,634
Cash and pledged deposits	2,357,086	2,354,881
Total liabilities	5,671,225	3,499,633
Interest bearing borrowings	1,685,911	2,025,160
Convertible bonds	–	142,058
Net assets	1,094,701	1,064,803

KEY FINANCIAL INDICATORS

	2009	2008
Inventory turnover (days) *	**18**	19
Trade receivable turnover (Restated) (days) **	**81**	85
Current ratio (times)	**1.2**	1.2
Interest bearing borrowings/total assets (Restated) ***	**11%**	20%

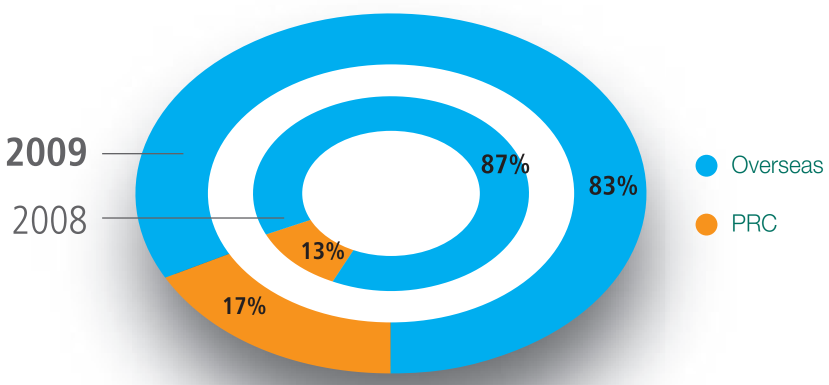
* Finished goods only

** Included trade receivables and factored trade receivable

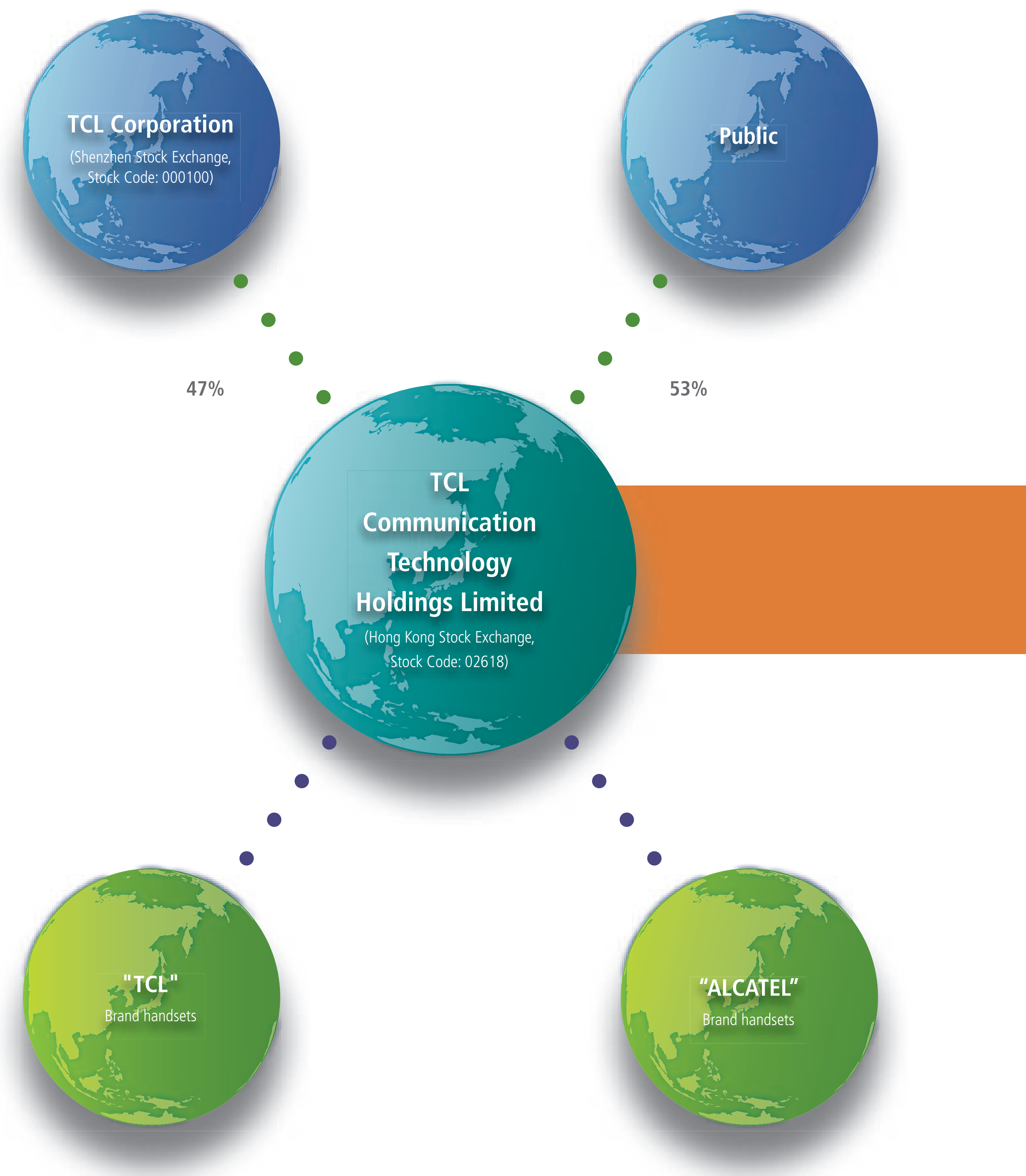
*** Excluding the interest-bearing borrowing for RMB foreign exchange program

Note: The above turnover days are calculated on average balance of the year.

SALES VOLUME BY MARKET



CORPORATE STRUCTURE



2009 YEAR IN REVIEW

Feb

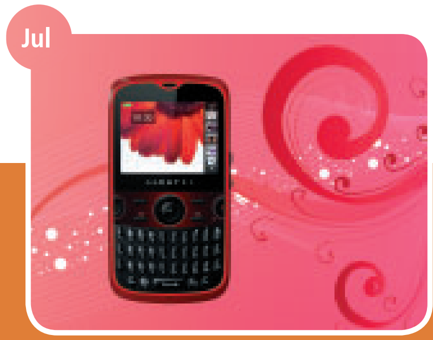
Took part in the 3GSM World Congress 2009 held in Barcelona of Spain, displaying a range of new stylish ALCATEL mobile phones, which received extensive attention from various operators for the colorful design and competitive price.

Mar

TCL Communication ten-year anniversary ceremony & 3G Industrialization Summit Forum was successfully held in Huizhou city.

Jul

The star product of Year 2009, OT-800 ("Jade") was put into mass production in July 2009, and turned to be a new market focus soon.



Aug

Huizhou TCL Mobile Communication Co., Ltd., a wholly-owned subsidiary of the Company, was rated as AA Class Enterprise by Customs and awarded the rating certificate.

E800, one of the Company's TD phone, was shortlisted for Purchase Bidding for RMB1000 3G Phones of China Telecom.

Sep

P&T/EXPO COMM CHINA 2009 was held in China International Exhibition Center, Beijing. More than 500 manufacturers from fifteen countries and areas participated. TD family product of the Company including S188 (TD Family Phone), FF100 (TD-SCDMA/GSM fixed wireless phone), etc received great attention.

CHAIRMAN'S STATEMENT

Mr. LI Dongsheng

Dear Shareholders,

The global economy was extremely volatile in 2009. Under the impact of the financial tsunami, the handset sales in the first half of 2009 experienced a decline not seen in years. Nevertheless, the macro-economic environment substantially improved in the second half of 2009 following the introduction of stimulus packages by governments of various countries. In the face of economic uncertainties, more and more customers opted to delay the replacement of their handsets, resulting in intensified competition in the industry and putting tremendous pressure on prices.

The Group's sales of handsets and accessories were adversely affected in the first half of 2009 amid the unfavorable operating environment. However, the Group completed a business adjustment and streamlined the corporate structure in the year of 2009, leading to strengthened coordination among different business units, improved operating efficiency and cost & risk management. We received more orders from major telecommunications operators by boosting cooperation with them. We stepped up efforts in the development of low-end products and enriched the product mix by rolling out more competitive and innovative mid to high-end products, enabling customers to enjoy more personalized value-added services while further enhancing our profitability. As a result, the sales performance in the second half of 2009 recovered remarkedly, and returned to levels seen before the financial crisis. These results are quite encouraging.

During the period under review, sales volume of handsets and accessories totaled 16.1 million units, an increase of 18% over 2008, far exceeding our sales target of 10 million units for the year of 2009. The Group reported a profit before the effect of convertible bonds amounting to HK$88 million for the year, on the back of a second half gain which offset the loss in the first half. These results showed that the Group's operating performance continued to improve after it adjusted the corporate structure, enhanced operating efficiency and competitiveness.

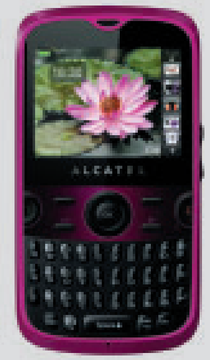
To tackle the challenges lying ahead and to prepare for future expansion, the Group completed the early buyback of all outstanding convertible bonds in 2009. In addition, we completed a rights issue in January 2010 and raised proceeds

Sales Volume Increase

18%

over 2008

CHAIRMAN'S STATEMENT



Sales Volume Increase 12% in Overseas

of approximately HK$358 million. These transactions further strengthened our financial position. With a stronger capital base and cash flow, we have a better opportunity for business expansion.

OVERSEAS SALES EXCEEDED TARGETS

We stuck to our globalization and made use of the brand power of Alcatel to expand in Europe, the Middle East and Africa Market ("EMEA"), Latin America Market ("LATAM") and Asia Pacific Market, etc. We further developed mid to high-end products in tandem with low-end handsets and accessories. Sales volume in overseas markets was 13.3 million units, an increase of 12% over 2008 and accounting for 83% of total sales.

The Group's overseas sales performance in the first half was lackluster. Nonetheless, through strengthened cooperation with major telecommunications operators, and launch of the popular OT-708 ("One Touch MINI") and OT-800 ("Jade") series, we managed to get a large number of orders in the second half which led to a satisfactory overall sales for the full year.

Sales volume in the EMEA increased by 19% last year to approximately 6.4 million units. The outstanding sales performance in this region was primarily due to the popularity of products such as the OT-708 ("One Touch MINI") series. The Group cultivated a good working relationship with the major telecommunications operators in the U.K., Romania and Germany, propelling the rapid growth of our operations in Europe. The average selling price in the region remained stable in 2009.

Latin America was hit hard by the financial tsunami. Due to the shrank demand of the consumers, the sales performance in LATAM was sluggish in the first half of 2009. However, it bounced back significantly in the second half. Our performance in Mexico was particularly encouraging. The Group sold a total of about 6.4 million units in LATAM, an increase of 7% over 2008. The OT-708 ("One Touch MINI") and OT-800 ("Jade") series were the best selling products and were warmly received by customers.

The Group actively expanded business in the Asia Pacific in 2009 and achieved a promising sales performance, with our products being well received by major telecommunications operators. We successfully penetrated markets in Indonesia, Thailand, Israel, Malaysia, Vietnam, Singapore, Australia and New Zealand.

PROMISING SALES PERFORMANCE IN THE PRC MARKET WITH SUSTAINABLE AND STEADY BUSINESS GROWTH

Most of our products sold in the PRC market are under the brand name TCL. The Group achieved sales volume of 2.8 million units in China in 2009, a staggering increase of 61% over 2008. The Group has adjusted our marketing policy by stepping up cooperation with major telecommunications operators and diversifying the product mix, in order to promote sustainable and steady development of the business in China.

IMPROVED FINANCIAL POSITION AND RISK MANAGEMENT

In light of fierce competition in the handset industry, we have taken various measures to enhance our financial strength and risk management. For instance, we completed the early buyback of all the outstanding convertible bonds in 2009. Consequently, our gearing ratio was improved and the financial position was substantially improved. Also, we completed a rights issue in January 2010 to strengthen the capital base. The proceeds raised will be used to increase our production capacity and to further develop the Original Design Manufacturer (ODM) operation.

While striving hard to expand our businesses, the Group also exercised stringent risk control to ensure “swift delivery, quick turnover”. During the period under review, we carried out various measures to keep inventories down and to hasten the delivery of orders. Customers’ satisfaction levels were thus raised.

ACHIEVEMENTS IN PRODUCT DEVELOPMENT

While attaching great importance to consolidating the low-end handset operation, the Group steadily developed the mid to high-end business by pushing ahead with product development. The Group further improved and enriched the product mix so as to offer customers more value-added services.

In early 2010, a number of our products were showcased in the 3GSM World Congress in Barcelona and the International Consumer Electronics Show in Las Vegas, including new camera handsets, handsets with full QWERTY keypad and touch screens, etc. They aroused keen interest from market players.

BUSINESS OUTLOOK

Looking ahead into 2010, the management believes that the handset industry will grow healthily after experiencing a period of slowdown. However, competition in the market will remain intense. After the completion of the business adjustment in 2009, corporate structure of the group is more straightforward and efficient, enabling us to capture business opportunities with swifter responses to changes in the market, and make a better sales record in the future.

We will continue to actively expand in overseas and the PRC markets. In the coming year, we will further strengthen co-operation with major telecommunications operators and vigorously develop the ODM business to boost sales.

Finally, on behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, customers, suppliers and business partners for their faithful support. I would like to thank our entire staff for their valuable contribution and dedication over the past year.

Li Dongsheng
Chairman

10 March 2010

Developing

ODM

business

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL HIGHLIGHTS

- Total sales volume of handsets and accessories reached 16.1 million units in 2009, an increase of 18% over 2008 and significantly exceeding the sales target of 10 million units for the year.
- Despite the impact of the financial tsunami, the Group's sales performance started to recover in June. Sales volume grew remarkably in the fourth quarter, increasing by 100% to 6.8 million units from the same period of 2008. Sales volume of December 2009 hit single-month record high to 2.6 millions units.
- The Group achieved a profit before effect of convertible bonds amounting to HK$88 million for the full year of 2009.
- During the period under review, the Group successfully completed the early repurchase of all outstanding convertible bonds. Moreover, it completed a rights issue in January of 2010. As a result, the financial position has been strengthened with sufficient cash flow.
- The Group will continue to expand the Original Design Manufacturer (ODM) business, which is expected to experience vigorous growth and boost overall sales volume.
- The Group will solidify the existing low-end handset and accessories business and explore the mid to high-end product segments.

INDUSTRY OVERVIEW

Global demand for handsets remained sluggish amid the economic slowdown around the world due to the financial tsunami. The handset industry experienced a difficult time during the first half of 2009. Nevertheless, as the global economy recovered, handset sales volume began to pick up in the third quarter and made further improvement in the fourth quarter.

During the period under review, the economy in China grew briskly. Restructuring of the telecommunications sector and the increase in mobile service operators propelled the development of the handset industry in China. Meanwhile, the expansion of 3G services drove further growth in the domestic handset sector.

BUSINESS REVIEW

In the face of fierce competition in the market, the Group completed a business adjustment in 2009. The resources of its two major brands Alcatel and TCL, such as research and development, production and marketing, were combined to optimize the business structure. As a result, the Group could more swiftly respond to developments in the market and changes in demand and capture opportunities brought about by the global economic recovery. Moreover, it further enhanced cost control, risk management and product competitiveness and made great improvements in operating efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also stepped up efforts in bolstering cooperation with major telecommunications operators around the world. While continuing to expand the low-end handset operation, it moved on to develop and market mid to high-end products to enhance profitability and rolled out more competitive and innovative products to the marketplace. These products brought customers increasingly enriched, personalized value-added services.

During the period under review, the Group launched a series of handsets and accessories. They received an enthusiastic response from the market and were warmly accepted by a number of major telecommunications operators, in particular Alcatel's OT-708 ("One Touch MINI") and OT-800 ("Jade") series. These two models were very popular among customers and in great demand.

REVIEW OF OPERATIONS

In 2009, the Group sold a total of 16.1 million units of handsets and accessories, an increase of 18% over 2008. The overall operating environment was very difficult last year, as the financial tsunami dealt a heavy blow to the global economy. However, as the macro economic conditions gradually improved, the Group's sales performance began showing signs of improvement in June and reversed the downtrend recorded in the first two quarters. Sales results in the fourth quarter were very promising and totaled 6.8 million units, a surge of 100% over the same period in 2008.

Overseas sales volume reached 13.3 million units during the period under review, an increase of 12% over 2008; sales volume in China totaled 2.8 million units, an increase of 61% over 2008. Sales performance in both of overseas and China markets resumed to the levels seen before the financial tsunami.

During the period under review, the Group successfully completed the early repurchase of all its outstanding convertible bonds, helping to further strengthen its financial position. On top of that, it completed a rights issue in January 2010 and successfully raised proceeds of approximately HK$358 million. The fund-raising exercise enables the Group to increase production capacity, which is helpful to further expand ODM operations.

Sales volume breakdown by location:

	Handsets and Accessories Unit Sales For the year ended 31 December		
('000 units)	**2009**	2008	Change (%)
Overseas	**13,351**	11,969	+12%
The PRC	**2,772**	1,726	+61%
Total	**16,123**	13,695	+18%

Europe, Middle East and Africa ("EMEA")

Shipments to Europe, the Middle East and Africa totaled 6.4 million units in 2009, a 19% increase over 2008. The overwhelming market response to the OT-708 ("One Touch MINI") series predominately drove business growth in these areas. Moreover, a number of models such as the OT-103, OT-203, OT-211, OT-303 and OT-363 received warm responses from customers and sales of data card products also achieved satisfactory growth. During the period under review, the average selling price of products in EMEA remained stable.

In 2009, the Group furthered cooperation with major telecommunications operators. Its sales performance in markets such as Britain, Germany and Romania was promising.

Latin America ("LATAM")

Sales volume in Latin America for 2009 reached 6.4 million units, an increase of 7% over 2008. During the period under review, the OT-800 ("Jade") and OT-708 ("One Touch MINI") handsets were the best-selling products in the region and appealed to customers. They were particularly successful in Mexico. The sales performance of the OT-103, OT-203 and OT-303 handsets was also rosy.

The Group continued to expand its penetration into the Brazilian and Central American markets and the outlook for 2010 is optimistic.

The PRC

During the period under review, the Group achieved a satisfactory sales performance in China. A total of 2.8 million units of handsets and accessories were sold last year, an increase of 61% over 2008.

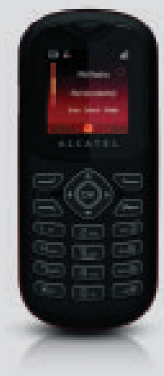
The Group carried out a series of effective measures to streamline its business structure in the China market and launched a number of more competitive low to mid-end products. It actively cultivated cooperation with major domestic telecommunications operators, thus helping the domestic business to grow steadily and healthily.

Other Markets

The Group actively expanded business in the Asia Pacific in 2009 with being well received by major telecommunication operators, and successfully explored markets in Indonesia, Thailand, Israel, Malaysia, Vietnam, Singapore, Australia and New Zealand, etc. with promising sales performance.

In 2009, the Group sold a total of 610,000 CDMA handsets, an increase of 30% over 2008. While enhancing cooperation with major telecommunications operators, the Group adopted market-driven pricing strategy. As a result, both the sales volume and competitiveness of its CDMA handsets were substantially improved. Moreover, the Group established a foothold in Indonesia, Fiji and Papua New Guinea and deepened cooperation with major operators. On top of that, it successfully expanded into Vietnam.

MANAGEMENT DISCUSSION AND ANALYSIS



PRODUCT DEVELOPMENT

The Group introduced a total of seventeen models of Alcatel handsets and two models of TCL handsets last year. Moreover, through cooperation with famous brands of fashions & accessories, it enriched handset design and made its product mix more diversified and competitive.

In 2009, The Group launched a series of low to mid-end handsets to address the different needs of the low to mid-end market. They included thirteen low-end products (such as OT-106, OT-206, OT-102, OT-203, OT-303, OT-363 series, etc.), two camera handsets (OT-600 and OT 660 series), and two mobile messaging handsets, i.e., OT-800 (“JADE”) and OT-708 (“One Touch MINI”). The enriched product mix boosted the Group’s overall sales volume.

While the OT-203 series was very popular among telecommunications operators in emerging markets, the OT-800 (“Jade”) series became one of the best selling products for the Group in 2009 with orders received from major telecommunications operators around the world. The QWERTY keypad of this mid-end product was tailor-made for messaging amongst youngsters. The Group made use of it to bring mobile Internet communication to the mid-end market. Meanwhile, the entry level touch screen, OT-708 (“One Touch MINI”), enabled customers to enjoy touch phone services at an entry-level price, and received favorable response from major telecommunications operators around the world.

During the period under review, the Group launched two TCL brand handsets, V300 and U688 TD-SCDMA handsets.

In 2009, the Group achieved promising sales for its 3G accessories. It rolled out a number of 3G data cards, including the 3G HSDPA USB dongle, the EVDO REV A USB dongle, 3G WIFI routers and the 3G HSUPA USB dongle. They were well received by customers.

OUTLOOK

Looking ahead, the global economy is expected to recover steadily. The handset industry, which bottomed for a prolonged period, will move on to an uptrend and experience modest growth. The Group will further strengthen and extend cooperation with major telecommunications operators, and enhance R&D and product design capacity. While consolidating the low-end handset and accessory business, we will prudently explore mid to high-end markets. Moreover, we will improve and enrich our product mix so as to improve product competitiveness and sales performance.

During the period under review, the Group vigorously expanded ODM operation and achieved satisfactory results through cooperation with major telecommunications operators in the world. We envisage stepping up efforts to receive more orders for the ODM business, which is forecasted to experience robust growth in 2010 and hence drive overall sales volume and operating efficiency for the Group.

In order to capture market opportunities arising from the burgeoning 3G sector, the Group will enhance efforts in R&D of 3G handsets and accessories, with the intention of launching Android-based and touch screen handsets. Meanwhile, we will continue to diversify our product line by stepping up efforts in developing products like data cards and multifunctional phones, etc. We will relentlessly strive to enrich the product line, improve sales performance and bring a better mobile communication experience to customers.

Despite an operating environment severely battered by the global economic downturn last year, management and the entire staff worked hand in hand to overcome various difficulties and challenges. We managed to achieve a gradual recovery in overall sales volume and operating results in the second half of 2009. These results are very encouraging. In 2010, the Group will continue to raise our operating efficiency and to invigorate cost control and risk management, laying a solid foundation for sustainable business growth.

FINANCIAL REVIEW

Results

For the year ended 31 December 2009, the Group's audited consolidated revenue amounted to HK$4,361 million (2008: HK$4,538 million), representing a year-on-year decrease of 4% as compared to that of last year.

The Group's gross profit margin rose to 22% from 18% in the same period of last year, despite the keen competition and general declining product prices.

EBITDA before effect of convertible bonds and profit attributable to owners of the parent were HK$163 million and HK$23 million respectively (2008: EBITDA before effect of convertible bonds and profit attributable to shareholders were HK$91 million and HK$28 million respectively). Profit before the effects of convertible bonds[1] is HK$88 million (2008: HK$0.4 million). Basic earnings per share was HK$2.51 cents (2008 (restated): HK$3.11 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 18 days (2008: 19 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivable (including trade receivables and factored trade receivables) turnover was 81 days (2008 (restated): 85 days).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31 December 2009.

Note:

1 The effects of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.

MANAGEMENT DISCUSSION AND ANALYSIS

Fund Raising

Except for the aforesaid rights issue, there was no other fund raising for the year ended 31 December 2009.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year under review. The Group's principal financial instruments comprise cash and cash equivalents, interest bearing bank and other borrowings and bank advances on factored trade receivables. The cash and cash equivalents balances as at 31 December 2009 amounted to HK$1,170 million, of which 32% were in Renminbi, 26% in US dollars, 10% in Euro and 32% in Hong Kong dollars & other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2009 were HK$1,686 million, in which the interest bearing bank and other borrowings were HK$1,462 million (which included those interest-bearing borrowing for RMB foreign exchange program amounting to HK$1,035 million) and bank advances on factored trade receivables were about HK$224 million. The Group's financial position remained healthy, with total assets of HK$6,766 million. The Group had a gearing ratio of 25% at the end of the year (31 December 2008 (restated): 47%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. Excluding the interest-bearing borrowing for RMB foreign exchange program, the gearing ratio was 11% (31 December 2008 (restated): 20%).

Pledge of Deposits

Deposit balance of approximately HK$1,187 million (31 December 2008: HK$1,670 million) represented the pledged deposit for interest bearing bank borrowings, banking facilities and other financial instruments of approximately HK$1,114 million and retention guarantee for factored trade receivables of approximately HK$73 million.

Capital Commitment and Contingent Liabilities

As at the end of the reporting period, the Group had no significant capital commitments contracted but not provided (2008: Nil).

At the end of the reporting period, contingent liabilities not provided for the financial statements were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**455,098**	250,000
	–	–	**455,098**	250,000

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$302,583,000 (2008: HK$41,580,000).

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, USD and RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employees and Remuneration Policy

The Group had approximately 4,700 employees as at 31 December 2009. Total staff costs for the year under review were approximately HK$396 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LI Dongsheng

aged 52, is the founder and Chairman of the Company. He is also the Chairman, Chief Executive Officer ("CEO") and one of the founders of TCL Corporation. TCL has become one of the leading global consumer electronics enterprises based in China, since the acquisition of Thomson color television and Alcatel mobile phone businesses. Mr. Li was elected as a delegate to the 16th Party Congress, and the 10th and 11th National People's Congress.

Mr. LI Dongsheng

In 2009, Mr. Li was awarded "Business Leader of the Decade" by CCTV Economy Channel, in addition to "Top 60 Branding Leaders of the Past 60 Years" by Brand China Industry Union. In 2008, Mr. Li received "Deloitte prize entrepreneurs" (in Barcelona); he was honored as "Economic Figure" of China's reform and opening up 30 years; he was awarded "the founder of the brand" in the 30 years of China's reform and opening up by a New York based brands evaluation institute; he was named by China Times as 2008 China "Top Ten Outstanding CEOs"; he was also short-listed "Brand China 2008 Person of the Year" by Brand China Industry Union.

Mr. Li received the Corporate Leadership award by the US-China Forum in Chicago in 2007; he was named "one of the most influential business leaders" by the China Entrepreneur Magazine in 2006 and 2005; "2004 CCTV China Economic Leadership Award" in 2004; one of the Top 25 Global Business Leaders by Time Magazine and CNN in 2004; "Asia Businessman of the Year" by Fortune Magazine in 2004. In the same year, Mr. Li was awarded a medal of OFFICIER DE LA LEGION D'HONNEUR (French national honor) by French President Mr. Jacques Chirac, where he became the first Chinese entrepreneur to be awarded the French national honor.

Mr. Li also holds a number of prestigious positions including: Chairman of China Electronic Imaging Industry Association; Vice Chairman of China Chamber of International Commerce; Guest Professor of Wuhan University. He is an electronic engineer and holds a Bachelor's Degree in Science from South China University of Technology.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR


Mr. GUO Aiping

Mr. GUO Aiping

aged 47, is the Chief Executive Officer of the Company and the Vice President of TCL Corporation effective from January 2010. Mr. Guo joined the Group in July 2001 and he was appointed successively as the Chief Operation Officer, Vice President, Senior Vice President and President. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corporation, Mr. Guo held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's Degree in Management Science and Engineering.

NON-EXECUTIVE DIRECTORS


Mr. BO Lianming

Mr. BO Lianming

aged 47, is an Executive Director and Chief Operating Officer of TCL Corporation, the Chairman of TCL Home Appliances Business Group. Mr. Bo held a number of management positions including Vice President and Financial Director of TCL IT Industrial Group, Vice president of TCL Components Strategic Business Unit, and Executive Vice President of TTE Corporation, as well as Human Resources Director, Vice President and Senior Vice President of TCL Corporation. He has over 9 years of experience in the consumer electronics products industry. Before joining TCL Corporation in 2000, he was the Chief Accountant of Shenzhen Airlines. Mr. Bo holds a Doctor's Degree in Business Management from Xi'an Jiaotong University.


Mr. HUANG Xubing

Mr. HUANG Xubing

aged 45, joined TCL Corporation in March 2001 and served as the Assistance of Vice President of TCL Corporation. In May 2002, Mr. Huang served as the General Manager of the Financial Settlement Centre of TCL Corporation. He became the Chief Economist of TCL Corporation in June 2004, Director and General Manager of TCL Finance Co. Ltd. in October 2006 and has been a member of the Executive Committee of TCL Corporation since July 2007. Mr. Huang has been the Vice President of TCL Corporation since April 2008, and concurrently been the Financial Director of TCL Corporation since June 2008. Before joining TCL Corporation, Mr. Huang served as the Head of Credit Facilities Department of China Construction Bank, Guangdong Branch and the Senior Manager of the representative office of China Cinda Asset Management Corporation in Guangzhou. Mr. Huang graduated from Hunan College of Finance & Economics, majoring in Finance, and obtained a Master's Degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, PRC.

Ms. XU Fang

aged 47, joined TCL Institute of Training of TCL Corporation as the Dean in February 2004. Ms. Xu became the Deputy Dean of TCL Institute of Leadership Development in February 2006 and the Dean in April 2007. She has been the Human Resources Director and General Manager of the Human Resources Management Centre of TCL Corporation since September 2007. She is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms. Xu obtained a Bachelor's Degree in English Linguistics from Nanjing Normal University, and a Master's Degree in Business Administration from New York Institute of Technology.


Ms. XU Fang

Mr. YANG Xinping, Charles

aged 48, joined TCL Corporation as the Vice President in January 2009, and served the Company as Chief Executive Officer from April 2009 to January 2010. Mr. Yang is the Chief Executive Officer of Nature Information Science and Technology LTD. (Shanghai) in which the Group owns a 35.48% equity interest. He established Dopod Communication Corporation in 2001 and served as the Chief Executive Officer and President between 2001 and 2006 and the Honorary Chairman between 2006 and 2008. Mr. Yang obtained a Bachelor's Degree in 1982 and a Master's Degree in 1985, both in Engineering from Xian Jiaotong University, also obtained a Master's Degree in 1987 and Doctor's Degree in 1989 from the University of California, Los Angeles (UCLA).


Mr. YANG Xinping, Charles

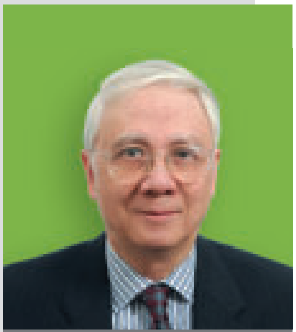
INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Cuiming

aged 69, from 1981 to 1987, Mr. Shi served as a Deputy Director of the Department of Postal Economic Research and a Deputy Director General of the Bureau of Finance of the Ministry of Posts and Telecommunications. From 1987 to 1997, he was a Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of Posts and Telecommunications. He was previously the Chairman of the Board and the CEO of China Mobile (Hong Kong) Limited, and an Executive Director and Executive Vice President of China Unicom Limited, both companies with their shares listed on the main board of the Hong Kong Stock Exchange and the New York Stock Exchange. From 2004 to 2009, Mr. Shi had acted as the Chairman and Executive Director of CITIC 1616 Holdings Limited, a company with its shares listed on the main board of the Hong Kong Stock Exchange. He currently serves as Senior Consultant of that company. He is also an Independent Non-executive Director of China GreenTech Corporation Limited, a company with its shares listed on the NASDAQ Exchange. Mr. Shi graduated from the Department of Management Engineering at the Beijing University of Posts and Telecommunications in 1963.


Mr. SHI Cuiming

DIRECTORS AND SENIOR MANAGEMENT



Mr. LIU Chung Laung

Mr. LIU Chung Laung

aged 76, has been engaged in teaching and research in the field of Electrical Engineering for a long period of time. He is now an Honorary Chair Professor of National Tsing Hua University in Hsinchu, Taiwan. Mr. Liu is also an Independent Non-executive Director of Powerchip Semiconductor Corp, United Microelectroins Corporation, Mototech Technology Corporation, Anpec Electronics Corporation and an Independent Supervisor of MediaTek Incorporation, all being companies with their shares listed on the Taiwan Stock Exchange. He graduated from National Cheng Kung University with a B.Sc. degree in Electrical Engineering in 1956. He also holds S.M. and Sc. D. degrees in Electrical Engineering from the Massachusetts Institute of Technology.

Mr. LAU Siu Ki

Mr. LAU Siu Ki

aged 51, is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants ("ACCA"). Mr. Lau has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing and had worked for an international accounting firm for over fifteen years. He is now working as a consultant in the financial advisory field and also acting as an Independent Non-executive Director of a number of listed companies in Hong Kong. Mr. Lau is a member of the ACCA Council and a member of the Executive Committee of the Hong Kong branch of ACCA, and was the Chairman of the Hong Kong branch of ACCA.

SENIOR MANAGEMENT

Mr. WONG Kwok Chung, Albert

aged 38, is an Executive Vice President and General Manager – Sales & Marketing (APAC) of the Company. Mr. Wong joined the Company in 2005. He has 12 years of experience in computers and electronics industry in Hong Kong, Canada and the PRC. He had been the Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, Chief Executive Officer and Chief Operation Officer of JCT Mobile. Mr. Wong graduated from the University of Toronto with a Bachelor's Degree in Science and obtained his Master's Degree in Electrical and Electronics Engineering at the Hong Kong University of Science & Technology.

Mr. Yves MOREL

aged 49, is a Senior Vice President of the Company, responsible for the Company's business in Europe, Middle East and Africa. Mr. Morel has 25 years sales and marketing experience mainly in Telecom industry. Prior to that, Mr. Morel was a Sales Area Director for Alcatel mobile phones from 2001 to 2005. He contributed to develop sales area such as Russia, central Europe, Middle East, Africa and at a later stage Western Europe. Prior to that he held several positions in sales at the PMR division (Private Mobile Radio) for Alcatel.

Mr. Nicolas ZIBELL

aged 42, is a Senior Vice President of the Company and General Manager of T&A Mexico, responsible for the Company's business in the Americas. Mr. Zibell has over 19 years of experience in sales, marketing and management in Automotive and Telecommunications industries in Europe and Latin America. He graduated from École Superieure de Commerce de Lyon and ESADE Business School with an MBA in 1990.

Mr. LIU Yuk Tung, Thomas

aged 47, is a Senior Vice President and Chief Financial Officer of the Company. Mr. Liu has over 20 years of experience in areas of audit, international finance and trading business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation in US, Sales and Marketing Director and General Manager of Neo-Neon Holdings Limited, a company with its shares listed on the Main board of the Hong Kong Stock Exchange. He is also a CPA of HKICPA, Charted Accountant of ICAEW and fellow member of ACCA. Mr. Liu holds a Bachelor's Degree major in Economics from the University of Hong Kong, a MBA from the University of New South Wales, Australia and a Master's Degree in Accounting from Jinan University, PRC.

Mr. WANG Jiyang

aged 40, is a Senior Vice President and General Manager of GSM/WCDMA production line, responsible for GSM/WCDMA production line management and product research and development. Mr. Wang joined the Company in 2005, and has over 18 years experience of research and development in Electronics industry. Prior to joining the Company, he had been an Engineer, a Project Manager, General Manager of Development Center, Vice General Engineer in TCL Mobile Communications Ltd. Mr. Wang graduated from the University of Electronic Science and Technology of China with a Doctor's Degree major in Electrocircuit & System.

Mr. HUANG Wan Quan

aged 45, is a Senior Vice President of the Company, responsible for overall domestic operations since November 2009. From 1990 to 2002, Mr. Huang served for TCL Multimedia, responsible for marketing management, was one of the earliest pioneers of the TCL's TV business marketing network; from 2002 to 2003, he served as International Business Unit General Manager of the Company, responsible for developing the first overseas business; in November 2003 he was appointed as Vice President of the Company, in charge of domestic sales and marketing operations management. Mr. Huang holds a Master's Degree major in inorganic non-metallic materials from Zhejiang University and on EMBA from South Polytechnic University.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Kai Long

aged 42, is a Senior Vice President of the Company and the Vice President of TCL Corporate Research. Mr. Wang joined TCL Corporation in February 1999, and served as the Deputy General Manager, Chief Engineer of HuiZhou TCL Mobile Communication Co., Ltd. Before joining TCL Corporation, Mr. Wang worked in Xi'an Institute of Space Radio Technology as Senior Test Engineer of satellite transponder for six years, during that time he participated in the launch of China "FY-II" weather satellite, and has rich experience in the satellite transponder research. Mr. Wang graduated from WuHan University major in Antenna and Microwave Propagation in 1990, and obtained a Master's degree in Electromagnetic and Microwave Technology at China Academy of Space Technology in 1993.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. LI Dongsheng *(Chairman)*

Mr. GUO Aiping *(Chief Executive Officer)*
(Appointed as executive director on 15 July 2009 and Chief Executive Officer on 11 January 2010)

Mr. YANG Xinping, Charles
(Appointed on 1 April 2009 and re-designated as non-executive director on 11 January 2010)

Mr. WONG Toe Yeung
(Re-designated as non-executive director from 12 May 2009 and resigned on 15 July 2009)

Mr. LIU Fei
(Retired on 12 May 2009)

Mr. YU Enjun
(Resigned on 15 July 2009)

NON-EXECUTIVE DIRECTORS

Mr. BO Lianming

Mr. HUANG Xubin

Ms. XU Fang
(Appointed on 15 July 2009)

Mr. YANG Charles Xinping
(Appointed on 11 January 2010)

Mr. WONG Toe Yeung
(Appointed on 12 May 2009 and resigned on 15 July 2009)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Siu Ki

Mr. SHI Cuiming

Mr. LIU Chung Laung

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*

Mr. SHI Cuiming

Mr. BO Lianming

REMUNERATION COMMITTEE

Mr. SHI Cuiming *(Chairman)*

Mr. LAU Siu Ki

Mr. BO Lianming

CORPORATE INFORMATION

COMPANY SECRETARY
Ms. PANG Siu Yin

AUTHORISED REPRESENTATIVES
Mr. GUO Aiping
(Appointed on 28 January 2010)
Ms. PANG Siu Yin
Mr. YANG Xinping, Charles
(Appointed on 12 May 2009, Resigned on 28 January 2010))
Mr. LIU Fei
(Resigned on 12 May 2009)

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

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

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

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

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

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1502, 15/F, Tower 6
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

PRChina Limited
Room 301, Wilson House
19-27 Wyndham Street
Central
Hong Kong

TICKER SYMBOL

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

WEBSITE

http://tclcom.tcl.com

CORPORATE GOVERNANCE REPORT

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board adopted the code provisions (the "Code Provisions") of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the CG Code wherever appropriate.

Throughout the year ended 31 December 2009, the Group complied fully with the CG Code.

THE BOARD

(1) The Board of Directors

The Board currently comprises 9 directors, 2 of whom are executive directors, 4 are non-executive directors ("NEDs") and 3 are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors:	LI Dongsheng *(Chairman)*
	GUO Aiping *(appointed as executive director on 15 July 2009, and as the Chief executive officer on 11 January 2010)*
	YANG Xinping, Charles *(appointed as executive director and Chief executive officer from 1 April 2009 to 11 January 2010, and re-designated as non-executive director on 11 January 2010)*
	WONG Toe Yeung *(appointed as Chief executive officer until 31 March 2009, and re-designated as non-executive director from 12 May 2009 and resigned on 15 July 2009)*
	LIU Fei *(retired on 12 May 2009)*
	YU Enjun *(resigned on 15 July 2009)*

Non-Executive Directors:	BO Lianming HUANG Xubin XU Fang *(appointed on 15 July 2009)* YANG Xinping, Charles *(appointed on 11 January 2010)* WONG Toe Yeung *(appointed on 12 May 2009 and resigned on 15 July 2009)*
Independent Non-Executive Directors:	LAU Siu Ki SHI Cuiming LIU Chung Laung

The biographies of the directors are set out in the "Directors and Senior Management" on Pages 18 to 24 of this Annual Report.

The members of the Board, all being industry veterans, are responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management.

The non-executive directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole. Throughout the year of 2009, the Board at all times met the requirements for having at least 3 INEDs, and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received written confirmations from each INED of his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication.

CORPORATE GOVERNANCE REPORT

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major issues that require the Board's timely attention and decisions. As the Board highly values the independent opinions and diversified perspectives from the INEDs, they, in addition to the executive directors, very often participate in the special Board meetings.

During 2009, the Board held 4 regular meetings at about quarterly intervals and 9 additional meetings (8 of which were held regarding special matters which required the Board's decisions whereas the other 1 meeting was held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2009 is as follows:

	Number of Board meetings attended/eligible to attend		
	Regular Board Meetings	**Additional Board Meetings concerning special matters requiring the Board's decisions**	**Additional Board Meetings concerning operational matters only**
Executive Directors			
LI Donsheng *(Chairman)*	0/4	5/8	0/1
GUO Aiping *(appointed as executive director on 15 July 2009 and as the Chief executive officer on 11 January 2010)*	2/2	5/5	1/1
YANG Xinping, Charles *(appointed as executive director and Chief executive officer from 1 April 2009 to 11 January 2010, and re-designated as non-executive director on 11 January 2010)*	3/3	6/6	1/1
WONG Toe Yeung *(appointed as Chief executive Officer until 31 March 2009, and re-designated as non-executive director from 12 May 2009 and resigned on 15 July 2009)*	3/3	0/1	0/0
LIU Fei *(retired on 12 May 2009)*	2/2	2/2	0/0
YU Enjun (resigned on 15 July 2009)	1/2	0/3	0/0

	Number of Board meetings attended/eligible to attend		
	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only
Non-Executive Directors			
BO Lianming	1/4	6/8	N/A
HUANG Xubin	3/4	5/8	N/A
XU Fang *(appointed on 15 July 2009)*	1/2	2/5	N/A
WONG Toe Yeung *(appointed on 12 May 2009 and resigned on 15 July 2009)*	0/0	1/1	N/A
Independent Non-Executive Directors			
LAU Siu Ki	4/4	7/8	N/A
SHI Cuiming	4/4	8/8	N/A
LIU Chung Laung	3/4	7/8	N/A

(2) Board Committees

The Board delegates its responsibilities to 3 committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs. Details of which is set out in the section headed "Board Committees" below.

(3) Management Functions

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

(4) Operation

To effectively manage the business affairs of the Group, the Operation Executive Committee was set up for implementation of the objectives and strategic plans as approved by the Board or the Executive Committee. The Operation Executive Committee currently comprises six members, all of whom are senior executives from various units of the Company, and one secretary. The composition of the Operation Executive Committee is set out as follows:

Members

YANG Xinping, Charles
(appointed on 1 April 2009, and resigned on 11 January 2010)
GUO Aiping
Alain LEJEUNE *(resigned on 3 August 2009)*
LIU Fei *(resigned on 12 May 2009)*
LIU Yuk Tung, Thomas
Yves MOREL
WONG Kwok Chung
YU Enjun *(resigned on 15 July 2009)*
Nicholas ZIBELL
WANG Jiyang

Secretary

NIU Haizhen *(resigned on 21 January 2010)*
SUN Wubin (*appointed on 21 January 2010)*

The Operation Executive Committee is responsible for overseeing the day-to-day operations of the Group. Normally, the Operation Executive Committee meets once a month, and may convene additional meetings when necessary to handle urgent matters.

(5) Nomination of Directors

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new directors. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to election by shareholders at the next general meeting after their appointment.

In 2009, there were 2 Board meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of director(s), and the attendance record of the directors at this meeting is as follows:

	Attendance
LI Dongsheng *(Chairman)*	1/2
GUO Aiping *(appointed as executive director on 15 July 2009,* *and the Chief executive officer on 11 January 2010)*	0/0
YANG Xinping, Charles *(appointed as executive director and Chief executive officer* *from 1 April 2009 to 11 January 2010,* *and non-executive director on 11 January 2010)*	1/1
WONG Toe Yeung *(appointed as Chief executive officer until 31 March 2009,* *and non-executive director from 12 May 2009* *and resigned on 15 July 2009)*	2/2
LIU Fei *(retired on 12 May 2009)*	1/1
YU Enjun *(resigned on 15 July 2009)*	0/2
BO Lianming	2/2
HUANG Xubin	2/2
XU Fang *(appointed on 15 July 2009)*	0/0
LAU Siu Ki	1/2
SHI Cuiming	2/2
LIU Chung Laung	2/2

During the meetings, the Board considered the nomination and appointment of Mr. YANG Xinping, Charles as an executive director whose term was effective from 1 April 2009, the nomination and appointment of Mr. GUO Aiping as an executive director whose term was effective from 15 July 2009 and the nomination and appointment of Ms. XU Fang as a non-executive director whose term was effective from 15 July 2009.

The Board adopted a procedure and criteria for nomination of directors, the details of which are set out below:

Procedures for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common criteria applicable to all directors
    - (a) Character and integrity candidate
    - (b) The willingness to assume Board fiduciary responsibility
    - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
    - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company
    - (e) Significant business or public experience relevant and beneficial to the Board and the Company
    - (f) Breadth of knowledge about issues affecting the Company
    - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
    - (h) Ability and willingness to contribute special competencies to Board activities
    - (i) Fit with the Company's culture

2. Criteria applicable to NEDs/INEDs
   (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   (b) Accomplishments of the candidate in his or her field
   (c) Outstanding professional and personal reputation
   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

(6) Appointment, Re-election and Removal

One third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the annual general meeting (the "AGM") in each year, and the NEDs are elected to hold office for a specific term until the next AGM.

At the last AGM held on 12 May 2009, one-third of the directors (namely Mr. WONG Toe Yeung, Mr. LIU Fei, Mr. HUANG Xubin and Mr. BO Lianming) were subject to retirement by rotation and were re-elected except for Mr. LIU Fei who did not offer himself for re-election. All the other non-executive directors (namely Mr. HUANG Xubin, Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung) were elected to hold office for a specific term until the next AGM to be held in 2010.

(7) Roles of Chairman and Chief Executive Officer

The position of the Chairman is held by Mr. LI Dongsheng, while the position of the Chief executive officer had been held by Mr. WONG Toe Yeung up to 31 March 2009 and taken up by Mr. YANG Xinping, Charles thereafter until 11 January 2010, which was then taken up by Mr. GUO Aiping thereafter. This ensures a clear distinction between the Chairman's duty to manage the Board and the chief executive officer's duty to oversee the overall internal operation of the Group.

(8) Directors' Securities Transactions

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all directors who have confirmed that throughout year 2009, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2009 are set out on Pages 46 to 49 of this Annual Report.

BOARD COMMITTEES

The Board has set up three Board Committees. The three committees under the Board are the Remuneration Committee, the Audit Committee and the Executive Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

(1) Remuneration Committee

The Remuneration Committee currently comprises two INEDs and one NED, namely Mr. SHI Cuiming, who is also the Chairman of the Remuneration Committee, Mr. LAU Siu Ki and Mr. BO Lianming.

The Remuneration Committee is governed by its terms of reference, which are available at the Group's website at tclcom.tcl.com.

Remuneration of Directors and Senior Management

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During 2009, the full Remuneration Committee met twice and accomplished the following:

- reviewing the Group's expenses and changes on staff remuneration in 2009; and
- reviewing the levels of remuneration and bonus plan of certain executive directors and senior management of the Group.

Attendance of each member at the Remuneration Committee meeting in 2009 is as follows:

	Number of committee meeting attended/eligible to attend
SHI Cuiming *(Chairman)*	2/2
LAU Siu Ki	2/2
BO Lianming	2/2

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its directors and senior management to attract and retain talents. A large portion of the package for executive directors and senior management is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors and senior management to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive plan which comprises the share option scheme and the restricted share scheme. The emoluments payable to the directors and senior management are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive plan of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees to consistently perform at a high standard and bring along long-term benefits to the Group.

The non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually;
- additional fee for additional responsibilities such as directorship in Board Committees; and
- restricted shares or share options of the Group under the long term incentive plan, which is awarded subject to the discretion of the Board.

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on note 12 to the financial statements.

(2) Audit Committee

The Audit Committee currently comprises two INEDs and one NED, namely Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. BO Lianming. Mr. LAU Siu Ki, the Chairman of the Audit Committee, is a professional accountant with profound financial and accounting expertise.

The Audit Committee is governed by its terms of reference, which are available at the Group's website at tclcom.tcl.com.

The Audit Committee usually meets 4 times a year to review the truthfulness, completeness, and accuracy of the Group's financial statements. It is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also oversees the scope of work of external auditors.

The Audit Committee's work in 2009 includes consideration of the following matters:

- the completeness and accuracy of the 2008 annual and 2009 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2009;
- review of the effectiveness of the system of internal control of the Group;
- the audit fees payable to external auditors for year 2009; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted.

During 2009, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meetings attended/eligible to attend
LAU Siu Ki *(Chairman)*	4/4
SHI Cuiming	4/4
BO Lianming	4/4

Other attendees at the Audit Committee meetings include the Group's chief financial officer and the external auditors for discussion of the audit of the interim and annual results only.

Remuneration of Auditors

During 2009, the fees in respect of audit and non-audit services payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK$5,013,000 and HK$1,368,000 respectively. Non-audit services provided by Messrs Ernst & Young included mainly tax services and financial instrument knowledge training.

(3) Executive Committee

The Executive Committee was established in April 2008 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decision for the management of the Group. In the year of 2009, the Executive Committee comprises three executive Directors, namely Mr. LI Dongsheng, Mr. YANG Xinping, Charles and Mr. GUO Aiping. Mr. YANG Xinping resigned as a member of the Executive Committee effective from 11 January 2010. The Executive Committee currently comprises two executive Directors, namely Mr. LI Dongsheng and Mr. GUO Aiping.

ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

The Board is responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements for the year 2009.

(2) Internal Controls

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. During the year under review, the Company conducted a review of the effectiveness of the internal control system of the Group with no critical internal control issues have been identified and in line with the growth of the business of the Group, it is decided that more financial resources will be given to internal control.

INVESTOR RELATIONS

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Company's website at tclcom.tcl.com. Viewers can also send enquiries to the Board or senior management by email at ir.tclcomm@tcl.com or directly by raising questions at the general meeting of the Company.

HUMAN RESOURCES & SOCIAL RESPONSIBILITIES

The Company has high regards for its employees and considers them as part of its most valuable wealth. As at 31 December 2009, the Company had a total of 4,700 employees. It is committed to cultivating a working environment that encourages talents pipeline management, staff development, team building and sense of belonging. The Company offers social and business insurance in accordance with the relevant state laws and regulations as well as competitive remuneration packages to employees, performance evaluation through result oriented KPI system as well as the efficiency system and providing an equal and fair working environment.

The Company places great emphasis on upgrading employee's professional skills and establishing a learning organization, offering sufficient room for individual staff's personal growth, and realize human capital appreciation through sustainable human resource policies. In 2009, the Company introduced a number of innovative measures to add value to its human resources, including arrangement to invite well known training organizations both at home and abroad, internal trainers of the Group, and E-learning courses to provide a wide range of training programmes for professional and general skills to staffs, which cover various area such as R&D, manufacturing, sales and marketing, platform management, etc. The Company also attached great importance to talent pipeline management. The Eagle System Courses which include Elite Eagle for mid-senior management, Eagle for frontline managers and Eyas for fresh graduates, shaped up the Company's talents selection, training and developing systems and help the staff to realize career development. These training greatly sharpen the leadership and management skills to mid-senior management and grass-root level managements, and also improved professional skills to general staffs.

Society is the base of enterprise. As a responsible corporate citizen, the Company is committed to shouldering its social responsibilities. As such, the Company abides by high normal standards on business practices and Code of Ethics; dedicated the business environment by promoting environmental protection and energy saving; and It has actively participated in charity work.

As one of the key member of TCL Corporation, we have actively supported the Group's Charitable work. Since 1996, TCL Corporation and her staff have donated in aggregate of approximately RMB100 million in cash and supplies. TCL Corporation is also one of the corporations in the PRC which firstly implements corporate citizenship behavior as a part of the corporate strategy, with a corporate vision of "Being a respected and most innovative global leader". Currently, all the seniors and staffs of TCL Corporation are paying so much effort on the social responsibility including charity and education, to support the weak and those in danger, staff welfare and environmental protection.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") are pleased to present the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries comprise manufacturing and sale of mobile phones. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 58 to 155.

The Directors recommended the payment of a final dividend of HK3.5 cents (2008: Nil) per share in respect of the year ended 31 December 2009 to shareholders whose names appear on the Register of Members at the close of business on 10 May 2010. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 20 May 2010.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and the Prospectus and reclassified as appropriate, is set out on page 156. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL, CONVERTIBLE BONDS AND SHARE OPTIONS

Details of movements in the Company's share capital, convertible bonds and share options during the year was disclosed in notes 38, 34 and 39 to the financial statements and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Directors' Report respectively.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, before payment of the proposed final dividend for the year ended 31 December 2009 the Company had an aggregate of HK$1,582,380,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. As the aforesaid contributed surplus represents premium arising on an issue of shares of the Company, the entire amount of HK$669,907,000 standing to the credit of the contributed surplus account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After taking into account of the proposed dividend, the amount of premium account would be HK$1,544,810,000, and after transfer of the contributed surplus as aforesaid, the amount would become HK$2,214,717,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 22% of the total sales for the year and sales to the largest customer included therein amounted to 5%. Purchases from the Group's five largest suppliers accounted for 26% of the total purchases for the year and purchase from the largest supplier included therein amounted to 12%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers, except that disclosed in note 45(a) to the financial statements.

DIRECTORS

The Directors during the year 2009 and up to the date of this annual report were:

EXECUTIVE DIRECTORS:

Mr. LI Dongsheng *(Chairman)*

Mr. GUO Aiping *(Chief executive officer)*

(Appointed as executive director on 15 July 2009 and chief executive officer on 11 January 2010)

Mr. YANG Xinping, Charles

(Appointed on 1 April 2009 and re-designated as non-executive director on 11 January 2010)

Mr. WONG Toe Yeung

(Re-designated as non-executive director from 12 May 2009 and resigned on 15 July 2009)

Mr. LIU Fei *(Retired on 12 May 2009)*

Mr. YU Enjun *(Resigned on 15 July 2009)*

NON-EXECUTIVE DIRECTORS:

Mr. BO Lianming

Mr. HUANG Xubin

Ms. XU Fang *(Appointed on 15 July 2009)*

Mr. YANG Xinping, Charles *(Appointed on 11 January 2010)*

Mr. WONG Toe Yeung

(Appointed on 12 May 2009 and resigned on 15 July 2009)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. LAU Siu Ki

Mr. SHI Cuiming

Mr. LIU Chung Laung

Mr. GUO Aiping and Ms. XU Fang, who were appointed by the Board as executive Director and non-executive Director respectively both effective from 15 July 2009, will be subject to election by Shareholders at the AGM.

In accordance with article 87(1) of the Company's Articles of Association, Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung will retire by rotation at the conclusion of the forthcoming AGM of the Company. All of them will hold their office until the conclusion of the AGM and will offer themselves for re-election at the AGM. Mr. HUANG Xubin, Mr. BO Lianming and Mr. YANG Xinping, Charles will also hold office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the AGM.

Ms. XU Fang, Mr. LAU Siu Ki, Mr. SHI Cuiming, Mr. LIU Chung Laung, Mr. HUANG Xubin, Mr. BO Lianming and Mr. YANG Xinping, Charles, if elected, will hold office until the conclusion of the next AGM to be held in 2011.

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2009, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Particulars of the Directors' remuneration and the five highest paid employees during the financial year are set out in note 12 to the financial statements.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the Directors are set out in "Emolument Policy and Long-Term Incentive Plan" of the Corporate Governance Report.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 6 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 45 to the financial statements under the heading "Related Parties Transactions", no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 45 to the financial statements under the heading "Related Parties Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

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

As at 31 December 2009, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) Interests in the Company - Long Positions

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company	Notes
LI Dongsheng	24,126,120	–	2,651,204	26,777,324	2.49%	ii
GUO Aiping	2,507,920	–	2,073,654	4,581,574	0.43%	ii
YANG Xinping, Charles	1,750,000	–	–	1,750,000	0.16%	iii
BO Lianming	65,700	–	644,748	710,448	0.07%	ii
HUANG Xubin	–	–	418,954	418,954	0.04%	
XU Fang	–	–	81,727	81,727	0.01%	
SHI Cuiming	–	–	32,727	32,727	0.003%	
LAU Siu Ki	–	–	112,727	112,727	0.01%	

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

TCL Corporation

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	160,662,400	–	–	160,662,400	5.47%
BO Lianming	534,894	–	–	534,894	0.02%

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

TCL Multimedia

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	30,411,731	–	3,194,757	33,606,488	3.32%
BO Lianming	1,807	–	340,357	342,164	0.03%
HUANG Xubin	–	–	295,229	295,229	0.03%
XU Fang	–	–	147,210	147,210	0.01%

Notes:

i. In view of the Company's rights issue (the "Rights Issue") on the basis of one Rights Share of HK$1.00 each for every two existing shares held (as mentioned in the prospectus of the Company dated 10 December 2009) having become unconditional on 30 December 2009 and 357,811,935 Rights Shares would be subscribed in total, the issued share capital of the Company as at 31 December 2009 herein is 1,073,435,805.

ii. The said shares held by Mr. LI Dongsheng, Mr. GUO Aiping and Mr. BO Lianming include the subscription for 8,042,040 Rights Shares, 1,502,640 Rights Shares and 21,900 Rights Shares respectively.

iii. The said shares held by Mr. YANG Xinping, Charles include (a) 1,500,000 restricted shares of the Company awarded on 3 January 2009 under the Share Award Scheme of the Group; and (b) subscription for 250,000 Rights Shares for the Rights Issue.

iv. TCL Corp, a company incorporated in the People's Republic of China, is the ultimate controlling shareholder of the Company.

v. TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company controlled by TCL Corp, is a subsidiary of TCL Corp.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

Save as disclosed above and in the "Share Option Scheme" and "Share Award Scheme" disclosed in note 39 and note 40 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any Director, their respective spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares or underlying shares in or debentures of the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	**Type of interest**	**Interest in shares and underlying shares held**	**Approximate percentage of the issued share capital** (Note (i))	Notes
TCL Corp	Interest of controlled corporation	717,048,019	66.80%	ii
Mr. WONG Toe Yeung	Beneficial owner/Interest of spouse/ Interest held jointly with another person	37,332,704	3.48%	iii
Ms. LEUNG Lai Bing	Beneficial owner/Interest of spouse/ Interest held jointly with another person	37,332,704	3.48%	iii

Notes:

i. In view of the Rights Issue on the basis of one Rights Share of HK$1.00 each for every two existing shares held (as mentioned in the prospectus of the Company dated 10 December 2009) having become unconditional on 30 December 2009 and 357,811,935 Rights Shares would be subscribed in total, the issued share capital of the Company as at 31 December 2009 herein is 1,073,435,805.

ii. Under the SFO, as at 31 December 2009 TCL Corp was deemed to be interested in (a) 332,097,696 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited ("TCL Industries,, a direct wholly-owned subsidiary of TCL Corp); and (b) subscription for 384,950,323 Rights Shares, the underwriting obligation of TCL Industries under the Underwriting Agreement dated 3 November 2009 entered into between the Company and TCL Industries, including 190,000,000 excess Rights Shares.

    Subsequently, as a result of the Rights Issue, TCL Industries was deemed to be interested in 500,521,544 shares, that is, 46.63% of the issued share capital of the Company. Further details please refer to the announcement of the Company dated on 4 January 2010.

iii. Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing are deemed to be interested in (a) 29,525,300 shares of the Company among which 11,995,300 shares are held by Norrell Overseas Invest Ltd. as the beneficial owner for the benefit of the MAG Foundation and Mr. WONG Toe Yeung's spouse, Ms. LEUNG Lai Bing is beneficially interested in the interest owned by the foundation, and 17,530,000 shares which is held by Ms. LEUNG; (b) 5,156,200 shares which are jointly held by Mr. Wong and Ms. Leung; and (c) 2,651,204 share options of the Company held by Mr. WONG Toe Yeung.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2009, the Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) and continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) with TCL Corp (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules):

a) On 27 October 2006, a financial service framework agreement was entered into among the Company, TCL Corp and TCL Finance Co., Ltd. (the "Finance Company", a non-wholly owned subsidiary of TCL Corp), pursuant to which the Company may from time to time utilize the financial services provided by the Finance Company including deposit services, finance services and other financial services. The term of the said financial service framework agreement is from 27 October 2006 to 31 December 2008.

   On 9 September 2008, the Company renewed the agreement with TCL Corp and the Finance Company by entering into a renewal agreement for a further three-year term from 1 January 2009 to 31 December 2011. The principal terms of the renewal agreement are substantially the same as the previous financial service framework agreement.

   Further details of the said renewal agreement were set out in the announcements of the Company dated 9 September 2008 and the circular of the Company dated 29 September 2008.

   The deposit services under the said renewal agreement and its proposed caps thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 16 October 2008.

   During the year, the maximum outstanding balance of deposits (including interest receivable in respect of the deposits) due from the Finance Company was HK$163,335,000 and no fee nor commission in respect of other financial services has been paid by the Group.

b) On 29 December 2006, a brand promotion agreement was entered into between the Company and TCL Corp, pursuant to which the Group agreed to contribute a certain percentage of the Group's net sales (before value added tax) from the sale of mobile communication products bearing the "TCL" name and products sold for each of our financial quarters for a period of thirty-six calendar months effective on 1 March 2007 to the TCL Brand Common Fund.

The said brand promotion agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 15 February 2007.

Further details of the said brand promotion agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

The Company has on 25 November 2009 entered into the brand promotion (renewal) agreement which becomes effective and supersedes the previous brand promotion agreement on 1 January 2010. The terms of brand promotion (renewal) agreement are substantially the same as its predecessor with some minor modification.

During the year, the Group contributed HK$784,000 under the said brand promotion agreement.

c) On 29 December 2006, a master supply agreement was entered into between the Company and TCL Corp regarding the following for a term of 3 years effective on 15 February 2007:

   i) purchase by the Group of imported raw materials through TCL Corp, only if at the request of the PRC subsidiaries of the Company, and resale of such goods to the PRC subsidiaries;

   ii) purchase by the Group of PRC manufactured raw materials from members of the TCL Group (other than the Group); and

   iii) sale by the Group of mobile communication products to members of the TCL Group (other than the Group).

The said master supply agreement and the transactions thereunder were duly approved by the shareholders of the company in an extraordinary general meeting held on 15 February 2007.

Further details of the said master supply agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

The Company has on 25 November 2009 entered into the master supply (renewal) agreement which becomes effective and supersedes the previous brand promotion agreement on 1 January 2010. The terms of master supply (renewal) agreement are substantially the same as its predecessor with some minor modification.

During the year, the considerations paid and received by the Group for the abovementioned services (i), (ii) and (iii) were HK$560,256,000, HK$95,186,000 and HK$5,038,000 respectively under the said master supply agreement.

d) On 6 June 2007, a TD-SCDMA technology cooperation agreement was entered into between JRDC (Shenzhen) and TCL Corporation Technology Centre ("Technology Centre", a wholly-owned subsidiary of TCL Corp) for a term of 3 years from the date of the said technology cooperation agreement. Pursuant to the said technology cooperation agreement, Technology Centre agrees to develop for JRDC (Shenzhen) the TD-SCDMA handset model with production scheduled in October 2007, whereas JRDC (Shenzhen) agrees to provide Technology Centre with access to a mobile communications platform and structural information of certain handset models, and arrange trial production and network entry testing of the TD-SCDMA handset model. Further details of the said technology cooperation agreement were set out in the announcement of the Company dated 3 July 2007.

   During the year, the Group contributed HK$227,000 under the said technology cooperation agreement.

e) On 10 September 2007, a framework agreement was entered into between TCT Mobile International Limited ("TCT" formerly T&A Mobile Phones International Limited, a wholly-owned subsidiary of the Company) and TTE Corporation ("TTE", a wholly owned subsidiary of TCL Multimedia), pursuant to which TTE and its subsidiaries ("TTE Group") agree (i) to procure the materials from TCT; (ii) to manufacture, assemble and/or test the products, as well as provide related services pursuant to TCT's written specifications to be agreed with TTE Group from time to time and to deliver the products and (iii) to sell the products to TCT at the price, whereas TCT agrees (i) to supply the materials to TTE Group at cost and (ii) to purchase from TTE Group the products at the price.

   The said framework agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 17 October 2007.

   The framework agreement is deemed to be effective on 1 September 2007 for a period of twenty-eight calendar months up to 31 December 2009, and the management of the Company has decided not to renew the agreement any more.

Further details of the said framework agreement were set out in the announcement and circular of the Company dated 10 September 2007 and 27 September 2007 respectively.

During the year, the Group purchased products amounting to HK$5,217,000 from TTE Group.

f) On 15 August 2008, a lease agreement was entered into between the Shenzhen Branch Office of TCL Mobile Communication (Hohhot) Co., Ltd. ("TCL Hohhot", an indirectly wholly-owned subsidiary of the Company) as lessee and Shenzhen TCL Central R&D Co., Ltd. ("Industrial Institute", a subsidiary of TCL Corp) as landlord, pursuant to which premises at Floors 8 and 15 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Group for office use. The term of the said lease agreement is from 1 January 2009 to 31 December 2009.

Further details of the said lease agreement were set out in the announcement of the Company dated 15 August 2008.

During the year, the total rental borne by TCL Hohhot amounted to HK$2,386,000.

g) On 15 August 2008, a lease agreement was entered into between JRD Communication (Shenzhen) Ltd. ("JRDC (Shenzhen)", an indirectly wholly owned subsidiary of the Company) as lessee and Industrial Institute as landlord, pursuant to which premises at Floors 16 and 17 and Room B302 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Group for office use. The term of the said lease agreement is from 1 October 2008 to 31 December 2009.

Further details of the said lease agreement were set out in the announcement of the Company dated 15 August 2008. In order to cope with the needs of the Group for office and warehouse space to house its administrative and R&D functions, the leases also covered certain premises in the TCL Tower which are currently let to the Group under the Temporary arrangements.

During the year, the total rental borne by JRDC (Shenzhen) amounted to HK$2,815,000.

h) On 23 February 2009, a technology transfer agreement was entered into between JRDC (Shenzhen) and Technology Centre, pursuant to which the technology mainly relates to the development platform for TD-SCDMA and GSM / GPRS networks coupled with research facilities, test sets, the license fees of using certain platforms and technical information owned by Technology Centre were transferred to JRDC (Shenzhen) at a cash consideration of RMB6,972,270 (equivalent to HK$7,923,985).

Further details of the said technology transfer agreement were set out in the announcement of the Company dated 23 February 2009.

During the year, the Group contributed HK$4,508,000 under the said technology transfer agreement.

The INEDs have reviewed the continuing connected transactions set out above and in note 45 to the financial statements and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) in accordance with the terms of the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iii) on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties.

Furthermore, the auditors of the Company have confirmed to the Board that the above continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions;

(iii) have not exceeded the relevant caps disclosed in the prospectus or relevant announcement of the Company (where applicable); and

(iv) are in accordance with the pricing policies of the Group where the transactions involved provision of goods or services by the Group.

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 28 to 40 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The annual results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises three members including Mr. LAU Siu Ki (Chairman) and Mr. SHI Cuiming, independent non-executive Directors, and Mr. BO Lianming, a non-executive Director.

AUDITORS

The accounts for the year ended 31 December 2009 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Li Dongsheng
Chairman

Hong Kong
10 March 2010

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of TCL Communication Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of TCL Communication Technology Holdings Limited set out on pages 58 to 155, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

10 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	9	**4,360,886**	4,538,281
Cost of sales		**(3,412,196)**	(3,726,663)
Gross profit		**948,690**	811,618
Other income and gains	9	**169,964**	273,391
Research and development costs	10	**(247,113)**	(262,924)
Selling and distribution costs		**(366,084)**	(389,388)
Administrative expenses		**(340,366)**	(393,191)
Other operating expenses		**(25,601)**	(1,588)
Finance costs excluding interest on convertible bonds	11	**(39,139)**	(28,393)
Share of losses of associates		**(1,455)**	–
Share of profit/(loss) of a jointly-controlled entity		**59**	(1,399)
		98,955	8,126
Changes in fair value of the derivative component of convertible bonds		**(58,037)**	68,078
Interest on convertible bonds	11	**(6,839)**	(39,959)
PROFIT BEFORE TAX	10	**34,079**	36,245
Income tax expense	13	**(11,074)**	(7,754)
PROFIT FOR THE YEAR		**23,005**	28,491
Attributable to:			
Owners of the parent		**23,005**	28,491
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) (as restated)	16		
Basic		**2.51**	3.11
Diluted		**N/A**	0.11

Details of the dividends payable and proposed for the year are disclosed in note 15 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
PROFIT FOR THE YEAR		**23,005**	28,491
OTHER COMPREHENSIVE INCOME			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	32	**16,115**	(6,509)
Reclassification adjustments for gains included in the consolidated income statement		**(9,606)**	–
		6,509	(6,509)
Exchange differences on translation of foreign operations		**(9,023)**	18,779
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(2,514)**	12,270
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**20,491**	40,761
Attributable to:			
Owners of the parent		**20,491**	40,761

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	17	**220,211**	261,608
Prepaid land lease payments	18	**15,671**	16,404
Intangible assets	19	**54,876**	49,690
Deferred tax assets	37	**17,276**	26,789
Goodwill	20	**146,856**	146,856
Available-for-sale investments	24	**20,245**	20,244
Interests in associates	22	**8,801**	–
Interest in a jointly-controlled entity	23	**3,992**	3,934
Other non-current assets		**152**	2,367
Total non-current assets		**488,080**	527,892
CURRENT ASSETS			
Inventories	25	**448,181**	229,998
Trade receivables	26	**1,304,069**	836,819
Factored trade receivables	27	**224,223**	153,392
Notes receivable		**4,142**	16,958
Prepayments, deposits and other receivables		**282,496**	253,971
Due from related companies	45(b)	**14,289**	17,376
Tax recoverable		**4,272**	29,347
Derivative financial instruments	32	**34,593**	143,802
Pledged deposits	28	**1,187,336**	1,670,499
Restricted deposits received from rights issue excess application		**1,604,495**	–
Cash and cash equivalents	28	**1,169,750**	684,382
Total current assets		**6,277,846**	4,036,544
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	29	**1,460,596**	1,866,500
Trade and notes payables	31	**1,073,764**	590,654
Bank advances on factored trade receivables		**224,223**	153,392
Derivative financial instruments	32	**7,723**	68,897
Tax payable		**425**	440
Other payables and accruals		**737,149**	557,817
Other payable arising from rights issue excess application		**1,604,495**	–
Provision for warranties	33	**63,390**	59,406
Due to related companies	45(b)	**138,246**	51,804
Total current liabilities		**5,310,011**	3,348,910
NET CURRENT ASSETS		**967,835**	687,634
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,455,915**	1,215,526

continued/...

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,455,915**	1,215,526
NON-CURRENT LIABILITIES			
Retirement indemnities	35	**1,351**	2,367
Long service medals	36	**959**	1,030
Convertible bonds	34	**–**	142,058
Other payable arising from rights issue	48	**357,812**	–
Interest bearing bank and other borrowings	29	**1,092**	5,268
Total non-current liabilities		**361,214**	150,723
Net assets		**1,094,701**	1,064,803
EQUITY			
Equity attributable to owners of the parent			
Issued capital	38	**715,624**	715,050
Shares held for Share Award Scheme	40	**(27,784)**	(47,823)
Reserves	41(a)	**369,291**	397,576
Proposed final dividends	15	**37,570**	–
Total equity		**1,094,701**	1,064,803

LI Dong Sheng
Director

GUO Ai Ping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the parent										
	Issued share capital HK$'000	Share premium account HK$'000 (Restated)	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$'000 (note 41(a))	Statutory reserves HK$'000 (note 41(a))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000 (Restated)	Total equity HK$'000
At 1 January 2008											
As previously reported	718,689	1,584,738	(9,570)	3,766	48,909	–	232,555	119,951	82,685	(1,729,300)	1,052,423
Total comprehensive income for the year	–	–	–	–	–	(6,509)	–	–	18,779	28,491	40,761
Issue of shares and exercise of share options	2,635	5,952	–	–	(2,782)	–	–	–	–	–	5,805
Share repurchased	(6,274)	(13,732)	–	–	–	–	–	–	–	–	(20,006)
Equity-settled share option arrangements	–	–	–	–	22,480	–	–	–	–	–	22,480
Shares purchased for Share Award Scheme	–	–	(44,991)	8,331	–	–	–	–	–	–	(36,660)
Reclassification of vested shares	–	(1,249)	6,738	(5,489)	–	–	–	–	–	–	–
At 31 December 2008	715,050	1,575,709*	(47,823)	6,608*	68,607*	(6,509)*	232,555*	119,951*	101,464*	(1,700,809)*	1,064,803

	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$'000** (note 41(a))	**Statutory reserves HK$'000** (note 41(a))	**Exchange fluctuation reserve HK$'000**	**Proposed final dividends HK$'000**	**Accumulated losses HK$'000**	**Total equity HK$'000**
At 1 January 2009 (Restated)	715,050	1,575,709	(47,823)	6,608	68,607	(6,509)	232,555	119,951	101,464	–	(1,700,809)	1,064,803
Total comprehensive income for the year	–	–	–	–	–	6,509	–	–	(9,023)	–	23,005	20,491
Issue of shares and exercise of share options	574	1,280	–	–	(620)	–	–	–	–	–	–	1,234
Reclassification of lapsed share options	–	20,995	–	–	(20,995)	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	3,767	–	–	–	–	–	–	3,767
Share purchased for Share Award Scheme	–	–	–	4,406	–	–	–	–	–	–	–	4,406
Reclassification of vested shares	–	(9,413)	20,039	(10,626)	–	–	–	–	–	–	–	–
Proposed final dividends	–	(37,570)	–	–	–	–	–	–	–	37,570	–	–
At 31 December 2009	715,624	1,551,001*	(27,784)	388*	50,759*	–*	232,555*	119,951*	92,441*	37,570	(1,677,804)*	1,094,701

* These reserve accounts comprise the consolidated reserves of approximately HK$369,291,000 (2008: HK$397,576,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**34,079**	36,245
Adjustments for:			
Share of losses of associates		**1,455**	–
Share of (profit)/loss of a jointly-controlled entity		**(59)**	1,399
Interest income	9	**(39,357)**	(23,837)
Finance costs	11	**45,978**	68,352
Depreciation	10	**60,217**	73,770
Prepaid land lease recognised	10	**733**	828
Amortisation of computer software and intellectual property	10	**3,853**	4,801
Amortisation of deferred development costs	10	**72,674**	59,676
Loss/(gain) on disposal of items of property, plant and equipment	10	**480**	(23)
Equity-settled share option expenses	10	**3,767**	22,480
Equity-settled Share Award Scheme expenses	10	**4,406**	8,331
Gain on repurchase of convertible bonds	9	**(44,614)**	(57,444)
Gain on sale of patent rights	9	**–**	(15,500)
Impairment loss of trade receivables and other receivables		**8,684**	24,990
Impairment loss of interests in an associate	10	**12,424**	–
Unrealised loss/(profit) on changes in fair value of derivative component of convertible bonds		**58,037**	(68,078)
		222,757	135,990
(Increase)/decrease in inventories		**(218,183)**	231,497
(Increase)/decrease in trade receivables		**(471,258)**	160,930
Decrease in notes receivable		**12,816**	50,103
(Increase)/decrease in factored trade receivables		**(70,831)**	46,260
(Increase)/decrease in prepayments, deposits and other receivables		**(52,328)**	99,169
Decrease/(increase) in derivative financial assets		**109,209**	(143,802)
(Decrease)/increase in derivative financial liabilities		**(54,665)**	52,893
Decrease in amounts due from related companies		**5,557**	48,786
Increase/(decrease) in trade and notes payables		**483,110**	(461,722)
Increase/(decrease) in other payables and accruals		**232,956**	(24,852)
Increase/(decrease) in provision for warranties		**3,984**	(11,952)
Increase/(decrease) in amounts due to related companies		**9,194**	(68,069)
(Decrease)/increase in retirement indemnities		**(1,036)**	806
(Decrease)/increase in long service medals		**(90)**	53
Increase/(decrease) in bank advances on factored trade receivables		**70,831**	(46,260)
Cash generated from operations		**282,023**	69,830
Tax received/(paid)		**23,912**	(1,785)
Interest paid		**(68,634)**	(28,393)
Net cash flows from operating activities		**237,301**	39,652

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000 (Restated)
Net cash flows from operating activities		**237,301**	39,652
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment	17	**(25,508)**	(82,507)
Acquisition of intangible assets	19	**(82,083)**	(75,111)
Proceeds from retirements and disposal of intangible assets	19	**375**	89
Proceeds from disposal of items of property, plant and equipment		**6,536**	3,351
Purchase of available-for-sale investments		**(1)**	(37)
Investment in associates		**(22,665)**	–
Decrease/(increase) in other non-current assets		**2,215**	(1,565)
Decrease in pledged deposits		**15,398**	85,470
Interest received		**68,748**	8,103
Net cash flows used in investing activities		**(36,985)**	(62,207)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by open offer and exercise of share options		**1,234**	5,805
Proceeds from rights issue		**357,812**	–
Rights issue expenses		**(1,474)**	–
Proceeds from rights issue excess application		**1,604,495**	–
Increase in restricted deposits received from rights issue excess application		**(1,604,495)**	–
Discount notes issued to the ultimate controlling shareholder		**77,248**	–
Decrease/(increase) in pledged deposits		**467,765**	(797,231)
Purchase of shares held for Share Award Scheme		**–**	(44,991)
Convertible bonds issuance expenses		**376**	2,566
Advance from the ultimate controlling shareholder		**6,091,766**	16,963,419
Repayment of advance from the ultimate controlling shareholder		**(6,094,236)**	(16,993,951)
Repurchase of convertible bonds		**(195,105)**	(111,374)
Shares repurchased		**–**	(20,006)
New bank loans		**2,320,903**	2,461,264
Repayment of bank loans		**(2,727,080)**	(1,551,037)
Capital element of finance lease		**(4,413)**	9,180
Net cash flows from financing activities		**294,796**	(76,356)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**495,112**	(98,911)
Cash and cash equivalents at beginning of year		**684,382**	767,557
Effect of foreign exchange rate changes, net		**(9,744)**	15,736
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**1,169,750**	684,382
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		**1,169,750**	684,382

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CURRENT ASSETS			
Due from subsidiaries	21	**1,094,701**	1,064,803
Other receivables		**728**	8,427
Cash and cash equivalents	28	**361,931**	40,292
Restricted deposits received from rights issue excess application		**1,604,495**	–
Total current assets		**3,061,855**	1,113,522
CURRENT LIABILITIES			
Trade payables	31	**2,021**	354
Due to subsidiaries		**104,691**	–
Other payables and accruals		**8,673**	35,914
Other payable arising from rights issue excess application		**1,604,495**	–
Total current liabilities		**1,719,880**	36,268
NET CURRENT ASSETS		**1,341,975**	1,077,254
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,341,975**	1,077,254
NON-CURRENT LIABILITIES			
Convertible bonds	34	**–**	142,058
Other payable arising from rights issue	48	**357,812**	–
Total non-current liabilities		**357,812**	142,058
Net assets		**984,163**	935,196
EQUITY			
Issued capital	38	**715,624**	715,050
Shares held for Share Award Scheme	40	**(27,784)**	(47,823)
Reserves	41(b)	**258,753**	267,969
Proposed final dividends	15	**37,570**	–
Total equity		**984,163**	935,196

LI Dong Sheng
Director

GUO Ai Ping
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2009

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacture and sale of mobile phones and related components.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is TCL Corporation, a limited liability company registered in the People's Republic of China ("PRC") and listed on the Shenzhen Stock Exchange.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Group's forward contracts, forward options and the derivative component of the convertible bonds, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries and the Share Award Scheme Trust, a controlled special purpose entity, are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries had been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and the net assets of the Company's subsidiaries.

2. BASIS OF PREPARATION (continued)

On 3 July 2007, the board of directors ("Board") approved a Share Award Scheme A ("Share Award Scheme A") under which awarded shares may be awarded to employees of a subsidiary of the Group in accordance with the terms and conditions of the Share Award Scheme A. On 11 March 2008, the Board of the directors resolved to adopt another restricted Share Award Scheme B ("Share Award Scheme B") as an incentive to retain and encourage the employees for the continual operation and development of the Group. Pursuant to the rules of the Share Award Schemes, the Group has set up a trust for the purpose of administering the Share Award Schemes and holding the awarded shares before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees who have been awarded the awarded shares through their continued employment with the Group, the Group is required to consolidate the Share Award Scheme Trust under HKAS 27.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS *18 Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfer of assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008)**	Amendments to a number of HKFRSs

NOTES TO FINANCIAL STATEMENTS

31 December 2009

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009)

** The Group adopt all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary,* which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), HKFRS 8 and the HKFRS 7 amendments, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. These revised disclosures, including the related revised comparative information, are shown in note 8 to the financial statements.

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The fair value measurement disclosures are presented in note 32 to the financial statements while the revised liquidity risk disclosures are presented in note 47 to the financial statements. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included *in Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

NOTES TO FINANCIAL STATEMENTS

31 December 2009

4. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

5. CHANGE IN ACCOUNTING ESTIMATIONS

The Group has modified the depreciation treatment of certain fixed assets categories in order to better align this treatment with the observed economic behaviour of assets in these categories. As a result, the projected lives of machinery and office equipment have been extended respectively. These changes in accounting estimates have been applied prospectively. Beginning from May 2009, these modifications have changed depreciation in the aforementioned fixed assets categories, and the effect on the financial performance of the Group for the year ended 31 December 2009 is approximately HK$5.8 million.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively.

The result of a jointly-controlled entity is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and the jointly-controlled entity, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.86% to 5%
Plant and machinery	10% to 20%
Furniture, fixtures, office and research and development equipment	20% to 33%
Motor vehicles	16.67% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year is derecognised as the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Golf club membership

Golf club membership has an indefinite useful life and stated at cost, less any identified impairment losses.

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Intellectual property

Purchased intellectual property is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less impairment losses and are amortised on a systematic basis with reference to projected revenue, ranging from 12 to 24 months, upon sales of related products.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at far value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions, and/or reference to the current market value of another instrument which is substantially the same.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of the group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;

- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In the case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, due to related companies, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liability at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bonds; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value using the Black-Scholes model and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges (continued)

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average or standard costing basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, associates and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, associates and interest in a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) subsidy income, when there is reasonable assurance that the subsidy will be received and all attaching conditions have been complied with; and

(d) value-added service income, upon provision of the relevant services.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme and two share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 39.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares held for the Share Award Scheme

As disclosed in note 40 to the financial statements, the Group has set up a trust ("Trust") for the Share Award Schemes, where the Trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for the Share Award Scheme" and deducted from the Group's equity.

Central Pension Scheme

Subsidiaries operating in Mainland China have participated in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the income statement as they become payable in accordance with the rules of the CPS.

Mandatory Provident Fund

The Company's subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the Scheme except for the employer voluntary contributions, which are refunded to the Company and its subsidiaries which are incorporated outside the PRC when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement indemnities

TCT Mobile Europe SAS ("TCT SAS"), which was incorporated in France, operates a defined contribution plan (the "contribution plan") and a defined benefit pension plan (the "pension plan"). For the contribution plan, TCT SAS is not liable for any legal or constructive obligations under the contribution plan beyond the contributions paid, and no provision as such is made. For the pension plan, corresponding to retirement indemnities relating to TCT SAS's employees, liabilities and prepaid expenses are determined as follows:

- using the projected unit credit method, with the projected final salary, which takes into consideration each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and

- by recognising, over the expected average remaining working lives of the employees participating in the plan, actuarial gains and losses in excess of more than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing date.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries, which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below:

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment was approximately HK$220,211,000 (2008: HK$261,608,000). More details are set out in note 17.

Management carries out the impairment review on property, plant and equipment by comparing the lower of carrying amount and recoverable amount of property, plant and equipment.

An impairment loss is recognised when the carrying amount of property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. Management assesses the recoverable amount by the higher of the fair value less costs to sell and the expected value in use which is determined by the expected useful life and the expected discounted net cash flow of property, plant and equipment.

Warranty claims

The Group generally offers warranties for its products for 12 to 24 months. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, it is estimated that the warranty provisions would be approximately HK$6 million higher or lower than expected in 2010.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was approximately HK$146,856,000 (2008: HK$146,856,000). More details are given in note 20.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategy. The carrying value of deferred tax assets at 31 December 2009 was HK$17,276,000 (2008: HK$26,789,000). The amount of unrecognised tax losses at 31 December 2009 was HK$2,228,811,000 (2008: HK$2,571,640,000). Further details are contained in note 37 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 6 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2009, the best estimate of the carrying amount of capitalised development costs was HK$44,171,000 (2008: HK$38,792,000).

8. OPERATING SEGMENT INFORMATION

The management considers the performance of the business in China and overseas segments. The reportable operating segments derive their revenue from research, development, manufacture and sale of mobile phones and related components. All of the Group's products are of a similar nature and subject to similar risk and returns.

No operating segments have been aggregated to form the above reportable operating segments.

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) from operations except research and development costs, change in fair value of the derivative component of convertible bonds and interest on convertible bonds.

Segment assets do not include goodwill, deferred development costs and deferred tax assets as these assets are managed on a group basis.

Segment liabilities do not include convertible bonds as the liability is managed on a group basis.

8. OPERATING SEGMENT INFORMATION (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2009

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	**3,873,503**	**487,383**	**4,360,886**
Intersegment sales	**367,574**	**3,426,243**	**3,793,817**
	4,241,077	**3,913,626**	**8,154,703**
Reconciliation:			
Elimination of intersegment sales			**(3,793,817)**
Revenue from operations			**4,360,886**
Segment results	**426,297**	**(80,229)**	**346,068**
Reconciliation:			
Research and development costs			**(247,113)**
Changes in fair value of the derivative component of convertible bonds			**(58,037)**
Interest on convertible bonds			**(6,839)**
Profit before tax			**34,079**
Segment assets	**4,058,109**	**2,499,514**	**6,557,623**
Reconciliation:			
Goodwill			**146,856**
Deferred development costs			**44,171**
Deferred tax assets			**17,276**
Total assets			**6,765,926**
Segment liabilities	**4,189,582**	**1,481,643**	**5,671,225**
Total liabilities			**5,671,225**

NOTES TO FINANCIAL STATEMENTS

31 December 2009

8. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Other segment information:			
Share of profit and loss of:			
A jointly-controlled entity	–	59	59
Associates	(31)	(1,424)	(1,455)
Impairment losses recognised in the income statement	8,461	12,647	21,108
Other non-cash expenses	8,173	–	8,173
Depreciation of property, plant and equipment	17,295	42,922	60,217
Amortisation of computer software and intellectual property	2,235	1,618	3,853
Prepaid land lease recognised	–	733	733
Interests in associates	–	8,801	8,801
Interests in a jointly-controlled entity	–	3,992	3,992
Capital expenditure	9,618	19,924	29,542

Capital expenditure consists of additions to property, plant and equipments, intangible assets but excludes additions of deferred development costs.

8. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	4,018,618	519,663	4,538,281
Intersegment sales	420,425	2,926,461	3,346,886
	4,439,043	3,446,124	7,885,167
Reconciliation:			
Elimination of intersegment sales			(3,346,886)
Revenue from operations			4,538,281
Segment results	302,136	(31,086)	271,050
Reconciliation:			
Research and development costs			(262,924)
Changes in fair value of the derivative component of convertible bonds			68,078
Interest on convertible bonds			(39,959)
Profit before tax			36,245
Segment assets	1,669,943	2,682,056	4,351,999
Reconciliation:			
Goodwill			146,856
Deferred development costs			38,792
Deferred tax assets			26,789
Total assets			4,564,436
Segment liabilities	1,316,579	2,040,996	3,357,575
Reconciliation:			
Convertible bonds			142,058
Total liabilities			3,499,633

NOTES TO FINANCIAL STATEMENTS

31 December 2009

8. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Other segment information:			
Share of loss of:			
A jointly-controlled entity	–	(1,399)	(1,399)
Impairment losses recognised in the income statement	15,929	9,061	24,990
Other non-cash expenses	30,811	–	30,811
Depreciation of property, plant and equipment	20,776	52,994	73,770
Amortisation of computer software and intellectual property	2,148	2,653	4,801
Prepaid land lease recognised	–	828	828
Interests in a jointly-controlled entity	–	3,934	3,934
Capital expenditure	27,776	57,869	85,645

Capital expenditure consists of additions to property, plant and equipments, intangible assets but excludes additions of deferred development costs.

No customer accounted for 10% or more of the total revenue for the years ended 31 December 2008 and 2009.

9. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and related components sold and services rendered during the year, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	2009	2008
	HK$'000	HK$'000
Revenue		
Sale of mobile phones and related components	**4,360,886**	4,538,281
Other income and gains		
Interest income	**39,357**	23,837
Subsidy income	**5,882**	567
VAT refunds*	**43,855**	37,401
Value-added service income	**3,909**	7,235
Exchange gain, net	**19,930**	124,830
Gain on disposal of items of property, plant and equipment	**–**	23
Gain on repurchase of convertible bonds	**44,614**	57,444
Gain on sale of patent rights	**–**	15,500
Others	**12,417**	6,554
	169,964	273,391

* During the year ended 31 December 2009, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT at a rate of 17%.

10. PROFIT BEFORE TAX

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

	Notes	2009 HK$'000	2008 HK$'000
Cost of inventories sold		**3,412,196**	3,726,663
Depreciation	17	**60,217**	73,770
Prepaid land lease recognised	18	**733**	828
Amortisation of computer software and intellectual property	19	**3,853**	4,801
Research and development costs:			
Deferred expenditure amortised	19	**72,674**	59,676
Current year expenditure		**174,439**	203,248
		247,113	262,924
Brand management fee/TCL Brand Common Fund		**784**	5,664
Minimum lease payments under operating leases in respect of land and buildings		**26,431**	16,910
Auditors' remuneration		**6,601**	6,037
Employee benefit expense (including directors' remuneration (note 12)):			
Salaries and wages		**396,287**	403,346
Equity-settled expenses:			
Share options		**3,767**	22,480
Share Award Scheme		**4,406**	8,331
Pension scheme contributions:			
Defined contribution scheme		**29,584**	27,567
Defined benefit schemes	35	**(1,036)**	806
		433,008	462,530
Impairment loss of trade receivables		**4,008**	17,658
Impairment loss of other receivables		**4,676**	7,332
Impairment loss of interests in an associate		**12,424**	–
Product warranty provisions	33	**87,711**	65,116
Loss/(gain) on disposal of items of property, plant and equipment		**480**	(23)

11. FINANCE COSTS

An analysis of finance costs is as follows:

	2009 HK$'000	2008 HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**28,875**	18,338
Interest on discounted notes and factored trade receivables*	**10,264**	10,055
Finance costs excluding interest on convertible bonds	**39,139**	28,393
Interest on convertible bonds**	**6,839**	39,959
Total finance costs	**45,978**	68,352

* The effective interest rate of factored trade receivables is 0.17% per month.

** According to HKAS 39 *Financial Instruments: Recognition and Measurement*, interest of convertible bonds is calculated based on the effective interest rate. The effective interest rate of the convertible bonds is approximately 15% whilst the yield to maturity is 5.709%.

12. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2009 HK$'000	2008 HK$'000
Fees	**1,296**	1,300
Other emoluments:		
Salaries, allowances and benefits in kind	**4,756**	4,585
Equity-settled share option expense	**1,306**	3,751
Pension scheme contributions	**54**	33
	7,412	9,669

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 39 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

12. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009 **HK$'000**	2008 HK$'000
Mr. Shi Cuiming	**180**	180
Mr. Liu Chunglaung	**180**	180
Mr. Lau Siu Ki	**180**	180
	540	540

In prior years, certain independent non-executive directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 39 to the financial statements.

(b) Executive directors, non-executive directors and the five highest paid employees

2009	**Fees** **HK$'000**	**Salaries, allowances and benefits in kind** **HK$'000**	**Equity-settled share option expense** **HK$'000**	**Pension scheme contributions** **HK$'000**	**Total remuneration** **HK$'000**
Executive directors:					
Mr. Li Dongsheng	130	–	148	7	285
Mr. Yang Xinping Charles (appointed on 1 April 2009)	97	1,558	758	–	2,413
Mr. Guo Aiping (appointed on 15 July 2009)	60	1,358	129	26	1,573
Dr. Liu Fei (retired on 12 May 2009)	44	1,303	–	6	1,353
Mr. Yu Enjun (resigned on 15 July 2009)	65	537	–	15	617
Non- executive directors:					
Mr. Bo Lianming	120	–	76	–	196
Mr. Huang Xubin	120	–	37	–	157
Ms. Xu Fang (appointed on 15 July 2009)	55	–	10	–	65
Mr. Wong Toe Yeung (resigned on 15 July 2009)	65	–	148	–	213
	756	4,756	1,306	54	6,872

12. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the five highest paid employees (continued)

2008	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Li Dongsheng	130	–	638	7	775
Dr. Liu Fei	130	2,854	1,401	12	4,397
Mr. Wong Toe Yeung, Chambers	130	–	638	–	768
Mr. Yu Enjun	130	1,731	659	14	2,534
Non- executive directors:					
Mr. Bo Lianming	120	–	267	–	387
Mr. Huang Xubin	120	–	148	–	268
	760	4,585	3,751	33	9,129

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The five highest paid employees during the year included two (2008: two) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining three (2008: three) non-directors, highest paid employees for the year are as follows:

	2009 HK$'000	2008 HK$'000
Salaries, allowances and benefits in kind	**5,773**	7,705
Equity-settled share option expense	**454**	1,803
Pension scheme contributions	**12**	12
	6,239	9,520

12. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the five highest paid employees (continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of non-directors and employees	
	2009	2008
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**2**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**–**	1
	3	3

In prior years, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 39 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year was included in the above non-director, highest paid employees' remuneration disclosures.

13. INCOME TAX

Group

	2009	2008
	HK$'000	HK$'000
Current		
Charge for the year		
The PRC	**31**	76
Underprovision in prior year		
France	**1,180**	–
Deferred (note 37)		
The PRC	**10,967**	6,509
Mexico	**(1,104)**	1,169
Tax charge for the year	**11,074**	7,754

13. INCOME TAX (continued)

No Hong Kong profits tax has been provided (2008: Nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high and new technology enterprise accreditation which expired on 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and had been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence was subject to a national income tax rate of 10% from 2005 to 2007. By end of 2008, TCL Mobile obtained its high technology enterprise accreditation and hence was subject to a national income tax rate of 15% from 2008 to 2010. Profits tax arising from subsidiaries of TCL Mobile has been provided in the Mainland China as taxable income arose during the year.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, was entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rates from 2004 to 2006 is subject to such rate of 7.5%. Mobile Hohhot was subject to the PRC corporate income tax rate of 15% in 2007 and 25% from year 2008 onwards.

According to the Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Communication (Shenzhen) Limited, a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax in 2008 and 2009 (i.e. two years commencing from its first profit-making year) and thereafter is entitled to a 50% preferential tax treatment for the subsequent three years as being a newly established high technology software enterprise.

TCT Mobile Europe SAS, a subsidiary of the Company in France, was subject to a corporate income tax rate of 33.33% in 2008 and 2009.

In 2007, TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, was subject to tax on assets at a tax rate of 1.25% over its 2006 average specific assets balance. The Business Flat Tax Law ("LIETU") came into effect on 1 January 2008, which applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. LIETU 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 rates are 16.5% for the year 2008, 17% for the year 2009, and 17.5% for the year 2010. The assets tax law was repealed upon enactment of LIETU.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

13. INCOME TAX (continued)

In 2009, TCT Mobile-Telefones LTDA, a subsidiary of the Company in Brazil, was subject to a corporate income tax rate of 25% and a social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. No profit tax has been provided in Brazil as no taxable income arose during the year (2008: Nil).

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the countries in which the Company and the majority of its subsidiaries, are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

	2009		2008	
	HK$'000	**%**	HK$'000	%
Profit before tax	**34,079**		36,245	
Tax at the applicable rates	**35,107**	**103.0**	29,410	81.1
Lower tax rates for specific provinces or enacted by local authorities	**(21,447)**	**(62.9)**	(68,771)	(189.8)
Effect on opening deferred tax of decrease in rates	**–**	**–**	11,053	30.5
Adjustment in respect of current tax of previous periods	**1,180**	**3.5**	–	–
Income not subject to tax	**(42,306)**	**(124.1)**	(34,986)	(96.5)
Expenses not deductible for tax	**71,638**	**210.2**	105,393	290.8
Tax losses utilised	**(65,225)**	**(191.4)**	(53,468)	(147.5)
Tax losses not recognised	**32,127**	**94.2**	19,123	52.8
Tax charge at the Group's effective rate	**11,074**	**32.5**	7,754	21.4

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK$39,560,000 (2008: HK$281,044,000) which has been dealt with in the financial statements of the Company (note 41(b)).

15. DIVIDENDS

	2009	2008
	HK$'000	HK$'000
Proposed final – HK$ 0.035 per ordinary share	**37,570**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

	2009	2008
	HK$'000	HK$'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**23,005**	28,491
Interest on convertible bonds	**–**	19,755
Less: Fair value gain on the derivative component of the convertible bonds	**–**	(47,195)
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	**23,005**	1,051

	Number of shares	
Shares	**2009**	2008
		(Restated)*
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**916,201,795**	915,773,107
Effect of dilution – weighted average number of ordinary shares: Deemed conversion of all convertible bonds	**–**	68,717,526
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**916,201,795**	984,490,633

* The number of ordinary shares has been adjusted as a result of the ten-to-one share consolidation effective on 23 January 2009. The restatement also takes into account the retrospective adjustment to the number of shares outstanding before the rights issue which completed on 4 January 2010 to reflect the bonus element inherent in the rights issue.

The calculation of basic earnings per share has included the impact on changes in fair value of the derivative component of convertible bonds.

For the year ended 31 December 2009, the convertible bonds had no impact on the diluted earnings per share as the convertible bonds have been fully redeemed during the year.

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

The calculation of the diluted earnings per share for the year ended 31 December 2009 has taken into account the share options outstanding during the year. Since the exercise price of certain share options during the year was higher than the fair market value of the ordinary shares, the share options outstanding during the year had an anti-dilutive effect on the Company.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009						
At 31 December 2008 and at 1 January 2009:						
Cost	83,526	542,871	138,617	9,224	4,345	778,583
Accumulated depreciation and impairment	(15,922)	(404,467)	(91,918)	(4,668)	–	(516,975)
Net carrying amount	67,604	138,404	46,699	4,556	4,345	261,608
At 1 January 2009, net of accumulated depreciation and impairment	67,604	138,404	46,699	4,556	4,345	261,608
Additions	1,716	9,941	10,005	1,487	2,359	25,508
Disposals	(1,105)	(9,263)	(6,318)	(2,537)	–	(19,223)
Depreciation provided during the year	(3,186)	(40,481)	(14,690)	(1,860)	–	(60,217)
Write-back on disposals	204	6,169	5,179	655	–	12,207
Transfer	5,955	–	30	–	(5,985)	–
Exchange realignments	65	110	101	54	(2)	328
At 31 December 2009, net of accumulated depreciation and impairment	71,253	104,880	41,006	2,355	717	220,211
At 31 December 2009:						
Cost	90,172	544,131	142,745	8,234	717	785,999
Accumulated depreciation and impairment	(18,919)	(439,251)	(101,739)	(5,879)	–	(565,788)
Net carrying amount	71,253	104,880	41,006	2,355	717	220,211

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	77,706	490,184	123,890	8,649	–	700,429
Accumulated depreciation and impairment	(11,723)	(360,665)	(79,399)	(4,744)	–	(456,531)
Net carrying amount	65,983	129,519	44,491	3,905	–	243,898
At 1 January 2008, net of accumulated depreciation and impairment	65,983	129,519	44,491	3,905	–	243,898
Additions	1,603	56,489	16,883	3,187	4,345	82,507
Disposals	–	(33,110)	(7,443)	(2,613)	–	(43,166)
Depreciation provided during the year	(3,422)	(55,154)	(13,484)	(1,710)	–	(73,770)
Write-back on disposals	–	32,774	5,028	2,036	–	39,838
Exchange realignments	3,440	7,886	1,224	(249)	–	12,301
At 31 December 2008, net of accumulated depreciation and impairment	67,604	138,404	46,699	4,556	4,345	261,608
At 31 December 2008:						
Cost	83,526	542,871	138,617	9,224	4,345	778,583
Accumulated depreciation and impairment	(15,922)	(404,467)	(91,918)	(4,668)	–	(516,975)
Net carrying amount	67,604	138,404	46,699	4,556	4,345	261,608

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery as at 31 December 2009 amounted to HK$14,140,000 (2008: HK$14,680,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2009

18. PREPAID LAND LEASE PAYMENTS

	2009 HK$'000	2008 HK$'000
Carrying amount at 1 January	**16,404**	17,137
Recognised during the year	**(733)**	(828)
Exchange realignment	**–**	95
Carrying amount at 31 December	**15,671**	16,404

As at 31 December 2009, the Group's land and buildings situated in Mainland China are held under long-term land use rights.

19. INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2009					
Cost at 1 January 2009, net of accumulated amortisation	38,792	9,038	403	1,457	49,690
Additions	78,049	3,291	70	673	82,083
Retirements and disposals	–	(368)	(7)	–	(375)
Amortisation provided during the year	(72,674)	(3,816)	(37)	–	(76,527)
Exchange realignment	4	–	1	–	5
At 31 December 2009	44,171	8,145	430	2,130	54,876
At 31 December 2009:					
Cost	215,158	22,175	2,064	2,130	241,527
Accumulated amortisation	(170,987)	(14,030)	(1,634)	–	(186,651)
Net carrying amount	44,171	8,145	430	2,130	54,876

19. INTANGIBLE ASSETS (continued)

Group

	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2008					
Cost at 1 January 2008, net of accumulated amortisation	26,823	10,900	157	1,117	38,997
Additions	71,973	2,449	349	340	75,111
Retirements and disposals	–	–	(89)	–	(89)
Amortisation provided during the year	(59,676)	(4,774)	(27)	–	(64,477)
Exchange realignment	(328)	463	13	–	148
At 31 December 2008	38,792	9,038	403	1,457	49,690
At 31 December 2008:					
Cost	137,109	19,599	1,425	1,457	159,590
Accumulated amortisation	(98,317)	(10,561)	(1,022)	–	(109,900)
Net carrying amount	38,792	9,038	403	1,457	49,690

20. GOODWILL

Group

	2009 HK$'000	2008 HK$'000
Cost at 1 January	**146,856**	146,856
Impairment during the year	**–**	–
Cost at 31 December	**146,856**	146,856
At 31 December:		
Cost	**146,856**	146,856
Accumulated impairment	**–**	–
Net carrying amount	**146,856**	146,856

Goodwill acquired through business combinations has been allocated to the mobile handsets cash-generating unit for impairment testing.

20. GOODWILL (continued)

The recoverable amount of the mobile handsets cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 6% and cash flows within the five-year period are extrapolated using growth rates of sales volume.

Key assumptions were used in the value in use calculation of the mobile handsets cash-generating units for 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Income represented (i) royalty income from the Group for the research and development of mobile handsets which are manufactured in the PRC; and (ii) recurring engineering service fees from the Group for the research and development of mobile handsets which are manufactured overseas.

(b) Sales volume of mobile handsets increased by 92% for the year 2010, 20% for the year 2011 and 5% for years from 2012 to 2014.

(c) Expenses growth rate is 8%, 10%, 3%, 3% and 3% for years of 2010, 2011, 2012, 2013 and 2014 respectively.

(d) Rate of additions of property, plant and equipment per annum is approximately equal to the rate of depreciation of property, plant and equipment.

(e) According to the income tax law of the PRC on newly established high technology software enterprises, JRD Communication (Shenzhen) Limited is entitled to exemption from PRC corporate income tax for two years commencing from 2008 and is entitled to a 50% preferential tax treatment for the subsequent three years as a newly established high technology software enterprise.

(f) No dividend is paid from years 2010 to 2014.

(g) The discount rate used is before tax and reflects specific risks relating to the relevant unit.

(h) JRD Communication (Shenzhen) Limited is entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17% up to year 2010.

21. INTERESTS IN SUBSIDIARIES

	Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Due from subsidiaries	**1,259,672**	1,314,638
Impairment loss of interests in subsidiaries	**(1,826,612)**	(1,911,476)
	1,094,701	1,064,803

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

The movements in the impairment loss of interests in subsidiaries are as follows:

	Company 2009 HK$'000	2008 HK$'000
At 1 January	**1,911,476**	2,146,048
Impairment loss reversed	**(84,864)**	(234,572)
	1,826,612	1,911,476

Impairment loss of interests in subsidiaries is provided based on the net assets value of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest Direct	Percentage of attributable equity interest Indirect	Principal activities
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Trading of mobile phone components
Huizhou TCL Mobile Communication Co., Ltd. (note (i))	The PRC/ Mainland China 29 March 1999	US$99,600,000	–	100%	Manufacture and sale of mobile phones
TCL Mobile Communication (Hohhot) Co., Ltd.	The PRC/ Mainland China 29 April 2002	RMB30,000,000	–	100%	Manufacture and sale of mobile phones
TCT Mobile Limited	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Manufacture and sale of mobile phones
TCT Mobile Europe SAS	France 1 January 2004	EUR23,031,072	–	100%	Development and distribution of mobile phones
TCT Mobile SA DE CV	Mexico 24 May 2004	US$4,300	–	100%	Distribution of mobile phones
TCL Mobile Solution Suzhou Limited (formerly known as "TCT Mobile Suzhou Limited") (note (i))	The PRC/ Mainland China 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile phones
TCT Mobile International Limited	Hong Kong 11 May 2005	HK$1	–	100%	Development and distribution of mobile phones
JRD Communication Inc. (note (ii))	British Virgin Islands 8 September 2005	HK$24,000,000	100%	–	Provision of product design and development services

21. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
JRD Communication (Hong Kong) Limited (note (ii))	Hong Kong 3 April 2006	HK$10,000	–	100%	Software development for mobile handsets
JRD Communication (Shenzhen) Limited (notes (i), (ii))	The PRC/ Mainland China 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets

Notes:

(i) This is a wholly-foreign-owned enterprise under PRC Law.

(ii) Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

22. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Share of net assets	**8,801**	–
Goodwill on acquisition	**12,424**	–
	21,225	
Provision for impairment	**(12,424)**	–
	8,801	–

NOTES TO FINANCIAL STATEMENTS

31 December 2009

22. INTERESTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ establishment	Percentage of ownership interest attributable to the Group	Principal activities
4C Lab Limited *	One ordinary share of US$1 each	British Virgin Islands	35.48%	Sale of financial software and provision of related services
Nature Information Science and Technology Ltd. *	One ordinary share of RMB1 each	The PRC/ Mainland China	35.48%	Sale of financial software and provision of related services

* Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2009 **HK$'000**	2008 HK$'000
Assets	**24,953**	–
Liabilities	**(147)**	–
Revenue	**451**	–
Loss	**(4,101)**	–

23. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**3,992**	3,934
	3,992	3,934

Particulars of a jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of incorporation/ establishment	Percentage of ownership interest attributable to the Group	Principal activities
Huizhou Cellutel Communication Limited *	One ordinary share of RMB1 each	The PRC/ Mainland China	50%	Sale of mobile phones

* Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2009	2008
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	**5,189**	4,160
Liabilities	**(1,197)**	(226)
Net assets	**3,992**	3,934
Share of the jointly-controlled entities' results:		
Revenue	**2,251**	2,136
Total expenses	**(2,192)**	(3,535)
Profit/(loss)	**59**	(1,399)

NOTES TO FINANCIAL STATEMENTS

31 December 2009

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Unlisted equity investments, at cost	**20,245**	20,244

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The unlisted equity investments are stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

25. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**279,490**	153,787
Work in progress	**2,706**	1,258
Finished goods	**209,109**	131,584
	491,305	286,629
Provision against inventory obsolescence and net realisable value	**(43,124)**	(56,631)
	448,181	229,998

26. TRADE RECEIVABLES

	Group 2009 HK$'000	Group 2008 HK$'000
Trade receivables	**1,327,335**	859,545
Impairment	**(23,266)**	(22,726)
	1,304,069	836,819

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

	Group 2009 HK$'000	Group 2008 HK$'000
Within 3 months	**1,140,539**	643,608
From 4 to 12 months	**145,671**	195,604
Over 12 months	**41,125**	20,333
	1,327,335	859,545
Impairment loss of trade receivables	**(23,266)**	(22,726)
	1,304,069	836,819

26. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**22,726**	7,367
Charge for the year	**4,008**	17,658
Amount written off as uncollectible	**(3,468)**	(2,299)
	23,266	22,726

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$23,266,000 (2008: HK$22,726,000) with a carrying amount before provision of HK$37,814,000 (2008: HK$39,225,000). The individually impaired trade receivables relate to customers that were in financial difficulties and a major portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Neither past due nor impaired	**949,869**	447,289
Less than 1 month past due	**224,467**	171,621
From 1 to 3 months past due	**95,896**	142,880
From 4 to 12 months past due	**11,152**	56,122
Over 12 months past due	**8,137**	2,408
	1,289,521	820,320

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

27. FACTORED TRADE RECEIVABLES

At 31 December 2009, two subsidiaries of the Group factored trade receivables of HK$224,223,000 (2008: HK$153,392,000) to banks on a recourse basis for cash. As the subsidiaries of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. Maturity dates range from 30 to 120 days. No impairment is made on the factored trade receivables.

The aged analysis of factored trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Current	**191,081**	110,845
Within 1 month	**31,142**	19,135
From 1 to 2 months	**2,000**	11,107
From 2 to 3 months	**–**	2,480
Over 3 months	**–**	9,825
	224,223	153,392

28. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Cash and bank balances	**1,169,750**	684,382	**361,931**	40,292
Pledged deposits	**1,187,336**	1,670,499	**–**	–
	2,357,086	2,354,881	**361,931**	40,292
Less: Pledged deposits				
– for factored trade receivables	**(72,732)**	(57,584)	**–**	–
– for interest bearing bank borrowings, banking facilities and other financial instruments	**(1,114,604)**	(1,612,915)	**–**	–
Cash and cash equivalents	**1,169,750**	684,382	**361,931**	40,292

NOTES TO FINANCIAL STATEMENTS

31 December 2009

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

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,334,341,000 (2008: HK$1,587,173,000(Restated)). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the restricted deposits approximate to their fair values.

Included in the Group's cash and bank balance are deposits of HK$12,082,000 (2008: HK$20,944,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.36% - 1.17% (2008: 0.36% - 1.17%) per annum, being the saving rate offered by the People's Bank of China.

29. INTEREST BEARING BANK AND OTHER BORROWINGS

Group

	2009		2008	
	Maturity (Year)	**HK$'000**	Maturity (Year)	HK$'000 (Restated)
Current				
Finance lease payable (note 30)	**2010**	**4,185**	2009	3,912
Loan from TCL Finance*	**–**	**–**	2009	113,570
Bank borrowings Secured*	**2010**	**1,456,411**	2009	1,749,018
		1,460,596		1,866,500
Non-current				
Finance lease payable (note 30)	**2011**	**1,092**	2010-2011	5,268
		1,461,688		1,871,768

* The Group's interest bearing bank borrowings are bank advance comprising bank borrowings of approximately HK$1,035,500,000 (2008: HK$1,509,780,000) which are secured by the pledge of certain of the Group's time deposits and bank borrowings of approximately HK$420,911,000 (2008: HK$352,808,000) which are guaranteed by the ultimate holding company.

30. FINANCE LEASE PAYABLE

The Group leases certain of its machinery for its production of mobile phones. This lease is classified as a finance lease and has a remaining lease term of two years.

As at 31 December 2009, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	Minimum lease payments 2009 HK$'000	Minimum lease payments 2008 HK$'000	Present value of minimum lease payments 2009 HK$'000	Present value of minimum lease payments 2008 HK$'000
Amounts payable:				
Within one year	**4,413**	4,413	**4,185**	3,912
In the second year	**1,103**	4,413	**1,092**	4,177
In the third year	**–**	1,103	**–**	1,091
Total minimum finance lease payments	**5,516**	9,929	**5,277**	9,180
Future finance charges	**(239)**	(749)		
Total net finance lease payable	**5,277**	9,180		
Portion classified as current liability (note 29)	**(4,185)**	(3,912)		
Non-current portion (note 29)	**1,092**	5,268		

NOTES TO FINANCIAL STATEMENTS

31 December 2009

31. 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 analysed as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 6 months	**1,067,731**	377,280	**1,687**	354
From 7 to 12 months	**175**	211,484	**–**	–
More than 1 year	**5,858**	1,890	**334**	–
	1,073,764	590,654	**2,021**	354

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

Certain trade and notes payables are secured by the pledged deposits amounting to HK$3,565,000 (2008: Nil).

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2009		2008	
Group	**Assets**	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Forward currency contracts – EUR	**7,572**	**–**	–	4,086
Forward currency contracts – GBP	**744**	**–**	–	–
Forward currency contracts – RUB	**40**	**–**	–	–
Forward currency contracts – EUR put option contracts	**–**	**–**	4,199	–
Forward currency contracts – RMB deliverable forward and non-deliverable forward contracts	**26,237**	**7,723**	139,603	62,388
Forward currency contracts – RMB non-deliverable forward contracts	**–**	**–**	–	2,423
	34,593	**7,723**	143,802	68,897

The carrying amounts of forward currency contracts are the same as their fair values. The above EUR, GBP and RUB forward contracts and EUR put option contracts involving derivative financial instruments are with international banks with A and B credit ratings in Moody's. The RMB deliverable forward contracts involving derivative financial instruments are mainly with the biggest national banks in the Mainland China. The RMB non-deliverable forward contracts are mainly with international banks with A and B credit ratings in Moody's.

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges

At 31 December 2008, the Group held forward currency contracts designated as hedges in respect of expected future sales to customers in Europe for which the Group has firm commitments.

The terms of the EUR forward currency contracts and RMB non-deliverable forward contracts have been negotiated to match the terms of the commitments.

	Group	
	2009	2008
	HK$'000	HK$'000
Total fair value gains/(losses)	**16,115**	(6,509)
Reclassification from other comprehensive income and recognised in the income statement	**(9,606)**	–
Net gains/(losses) on cash flow hedges	**6,509**	(6,509)

For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Loss of changes in the fair value of non-hedging currency derivatives amounting to HK$50,187,000 were charged to the income statement during the year (2008: gain of HK$77,708,000). The maturity dates of derivative financial liabilities are within one year.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the financial instruments measured at fair value held by the Group only include the derivative financial instruments which belong to level 2.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

33. PROVISION FOR WARRANTIES

The movements of the provision for warranties during the year are summarised as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
At beginning of year	**59,406**	71,358
Provision	**87,711**	65,116
Utilised	**(84,945)**	(76,015)
Exchange difference	**1,218**	(1,053)
At end of year	**63,390**	59,406

The Group generally provides warranties of one to two years to its customers on all products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision of warranties was not discounted, as the effect of discounting was not material.

34. CONVERTIBLE BONDS

On 2 April 2007 and 1 June 2007, the Company issued zero coupon convertible bonds with aggregate principal amounts of US$27 million and US$18 million respectively (the "Convertible Bonds"). The five-year Convertible Bonds were issued with a conversion price of HK$0.3275 per share and will mature on 2 April 2012. The yield to maturity is 5.709%. The conversion price of the Convertible Bonds has been adjusted from HK$0.3275 per share to HK$0.32 per share with effect from 2 April 2008 in accordance with the terms and conditions of the Convertible Bonds. Furthermore, on 23 January 2009, as approved by the shareholders of the Company, every 10 issued and unissued ordinary shares with a par value HK$0.1 each in the share capital of the Company were consolidated into one ordinary share of par value HK$1.0 ("Share Consolidation"). Accordingly, the conversion price of the Convertible Bonds was adjusted to HK$3.2 per share.

Pursuant to the terms and conditions of the Convertible Bonds, the Conversion Price was further adjusted to HK$1.84 per share with effect from 2 April 2009.

34. CONVERTIBLE BONDS (continued)

Due to several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Company being HK$ while the conversion of the Convertible Bonds being denominated in US$), the conversion will not result in an exchange of a fixed number of the Company's shares. In accordance with the requirements of HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*, the convertible bond contract must be separated into two component elements: a derivative component of the conversion option and a liability component of the straight debt element.

On the issue of the Convertible Bonds, the fair value of the embedded conversion option was calculated using the Black-Scholes model. The derivative component, the embedded conversion option, is carried at fair value on the statement of financial position with any change in fair value being charged or credited to the income statement in the period when the change occurs. The remainder of the proceeds is allocated to the debt element of the Convertible Bonds, net of transaction costs, and is recorded as the liability component. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. Interest expense is calculated using the effective interest method by applying the effective interest rate to the liability component up to the maturity date.

If the Convertible Bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the Convertible Bonds are redeemed, any difference between the amount paid related to the liability component and the carrying amount of liability component is recognised in income statement.

Fair value of the conversion option

The embedded conversion option has been separated from the host debt contract and accounted for as a derivative liability carried at fair value through profit or loss. The fair value of this conversion option which is not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The valuation model requires the input of subjective assumptions, such as the volatility of the share price, stock closing price, dividend yield, risk-free rate, and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. The Convertible Bonds have been fully repurchased on 15 May 2009, the fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes model.

Any change in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 1 January 2009 to 31 December 2009 resulted in a fair value loss of approximately HK$58 million, which has been recorded as "Changes in fair value of derivative component of convertible bonds" in the income statement for the year ended 31 December 2009.

34. CONVERTIBLE BONDS (continued)

Fair value of the conversion option (continued)

The carrying values of the derivative component and liability component of the Convertible Bonds as at 31 December 2009 are as follows:

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
As at 1 January 2009	108,725	33,333	142,058
Change in fair value of the derivative component of convertible bonds	–	58,037	58,037
Interest expense	6,839	–	6,839
Amortised issue expense of convertible bonds	376	–	376
Repurchased during the year	(115,940)	(91,370)	(207,310)
As at 31 December 2009	–	–	–

Conversion of US$500,000 of the Convertible Bonds has occurred as at 31 December 2009.

The Company accepted the offers from the bondholders and fully repurchased the Convertible Bonds during 2008 and 2009.

The repurchase were financed by internal funding and the directors consider that the repurchase of Convertible Bonds provide good opportunities for the Group to reduce its liabilities and interest payment obligations and to improve its financial position.

As a result of the repurchase and conversion, there was no outstanding principal amount of Convertible Bonds as at 31 December 2009.

35. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the defined benefit scheme plan for the year ended 31 December 2009 amounted to HK$1,351,000 (2008: HK$2,367,000).

	Group 2009 HK$'000	Group 2008 HK$'000
Present value of fund obligation	**1,351**	2,367
Unrealised actuarial losses	**–**	–
Retirement indemnities	**1,351**	2,367

Movements of retirement indemnities are as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Balance at beginning of year	**2,367**	1,691
Benefit expenses (reversed)/recognised in the consolidated results (note 10)	**(1,036)**	806
Exchange realignment	**20**	(130)
Balance at end of year	**1,351**	2,367

The Group does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the defined benefit plan are as follows:

	Group 2009	Group 2008
Discount rate	**5.00%**	5.30%
Future salary increase rate per annum	**3.0%**	5.0%

NOTES TO FINANCIAL STATEMENTS

31 December 2009

36. LONG SERVICE MEDALS

TCT Mobile Europe SAS provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to TCT Mobile Europe SAS to the end of reporting period.

37. DEFERRED TAX ASSETS

Group

	Tax losses HK$'000	Promotion and accruals HK$'000	Product warranty HK$'000	Bad debt provision HK$'000	Provision against inventory obsolescence HK$'000	Trade receivables to be recovered in future year HK$'000	Total HK$'000
At 1 January 2009	21,437	2,271	1,642	857	582	–	26,789
Exchange realignment	541	(375)	92	46	34	12	350
Deferred tax credited/(charged) to the income statement during the year (note 13)	(10,967)	2,671	156	379	(268)	(1,834)	(9,863)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2009	11,011	4,567	1,890	1,282	348	(1,822)	17,276

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of HK$968,686,000 (expiring 5 years after occurrence) which were related to the subsidiaries in the PRC and HK$1,260,125,000 (with infinite expiration) which were related to a subsidiary in France as at 31 December 2009 (2008: HK$1,320,086,000 which were related to the subsidiaries in the PRC and HK$1,251,554,000 which were related to a subsidiary in France) carried forward for offsetting against future taxable profits of the companies in which the losses arose.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

37. DEFERRED TAX ASSETS (continued)

Group

	Tax losses HK$'000	Promotion and accruals HK$'000	Product warranty HK$'000	Bad debt provision	Provision against inventory obsolescence HK$'000	Total HK$'000
At 1 January 2008	32,067	2,370	–	–	–	34,437
Exchange realignment	30	–	–	–	–	30
Deferred tax credited/(charged) to the income statement during the year (note 13)	(10,660)	(99)	1,642	857	582	(7,678)
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2008	21,437	2,271	1,642	857	582	26,789

38. SHARE CAPITAL

	Number of shares	Issued share capital HK$'000	Share premium HK$'000
Authorised:			
Ordinary shares of HK$0.1 each at 1 January 2008 and 1 January 2009	20,000,000,000	2,000,000	
Share consolidation (note (a))	(18,000,000,000)	–	
Ordinary shares of HK$1 each at 31 December 2009	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
Ordinary shares of HK$0.1 each at 1 January 2008	7,186,894,710	718,689	1,584,738
Share options exercised	26,351,999	2,635	5,952
Share repurchased	(62,748,000)	(6,274)	(13,732)
Reclassification of vested shares	–	–	(1,249)
At 31 December 2008 and at 1 January 2009 (as restated)	7,150,498,709	715,050	1,575,709
Share consolidation (note (a))	(6,435,448,839)	–	–
Share options exercised (note (b)) (note 39)	574,000	574	1,280
Reclassification of lapsed share options	–	–	20,995
Reclassification of vested shares	–	–	(9,413)
Proposed final dividends	–	–	(37,570)
At 31 December 2009	715,623,870	715,624	1,551,001

During the year, the following changes in the Company's share capital took place:

(a) Pursuant to the Share Consolidation effective on 23 January 2009, every 10 issued and unissued shares of HK$0.10 each have been consolidated into one consolidated share ("Consolidated Share") of HK$1.00 each and authorised ordinary share capital of the Company has become HK$2,000,000,000 divided into 2,000,000,000 Consolidated Shares, of which 715,049,870 Consolidated Shares were in issue.

(b) 574,000 share options were exercised during the year 2009 at subscription prices ranging from HK$2.108 to HK$2.32 per share, resulting in the issue of 574,000 shares of HK$1.00 each for a total cash consideration of HK$1,234,000.

39. SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include employees (including executive and 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 27 September 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the share option scheme (as refreshed by shareholders' approval dated 30 May 2007) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 30 May 2007 (i.e, up to 594,527,805 shares, which equals to 59,452,780 shares after the Share Consolidation). 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 higher 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.

As a result of the Share Consolidation, adjustments were made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options in accordance with the rules of the share option scheme adopted by the Company and the supplementary guidance issued by the Stock Exchange, which took effect on 23 January 2009.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the share option scheme of the Company during the year:

Name or category of participant	At 1 January 2009	Share Consolidation adjustment (Note vii)	At 23 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Reclassified	At 31 December 2009	Date of grant	Exercise period (both dates inclusive) (Notes iii, iv, v and vi)	Exercise price (HK$) (Note vii)	Closing Price immediately before the date of grant (HK$) (Note viii)
	Number of share options											
Directors												
Mr. LI Dongsheng	5,454,550	(4,909,096)	545,454	–	–	–	–	545,454	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	5,000,000	(4,500,000)	500,000	–	–	–	–	500,000	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	5,000,000	(4,499,999)	500,001	–	–	–	–	500,001	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	11,057,499	(9,951,750)	1,105,749	–	–	–	–	1,105,749	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	26,512,049	(23,860,845)	2,651,204	–	–	–	–	2,651,204				
Mr. GUO Aiping	–	–	–	–	–	–	103,636	103,636	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
(Note i)	–	–	–	–	–	–	355,000	355,000	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	–	–	–	–	–	–	650,000	650,000	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	–	–	–	–	–	–	965,018	965,018	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	–	–	–	–	–	–	2,073,654	2,073,654				
Mr. LIU Fei	1,745,456	(1,570,913)	174,543	–	–	(174,543)	–	–	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
(Note ii)	7,900,000	(7,109,998)	790,002	–	–	(790,002)	–	–	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	15,500,000	(13,949,998)	1,550,002	–	–	(1,550,002)	–	–	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	22,114,998	(19,903,500)	2,211,498	–	–	(2,211,498)	–	–	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	47,260,454	(42,534,409)	4,726,045	–	–	(4,726,045)	–	–				
Mr. YU Enjun	1,036,365	(932,730)	103,635	–	–	(103,635)	–	–	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
(Note ii)	8,550,000	(7,694,997)	855,003	–	–	(855,003)	–	–	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	5,500,000	(4,950,000)	550,000	–	–	(550,000)	–	–	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	11,258,544	(10,132,692)	1,125,852	–	–	(1,125,852)	–	–	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	26,344,909	(23,710,419)	2,634,490	–	–	(2,634,490)	–	–				
Mr. BO Lianming	818,183	(736,367)	81,816	–	–	–	–	81,816	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	5,629,300	(5,066,368)	562,932	–	–	–	–	562,932	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	6,447,483	(5,802,735)	644,748	–	–	–	–	644,748				
Mr. HUANG Xubin	654,546	(589,092)	65,454	–	–	–	–	65,454	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	800,000	(719,998)	80,002	–	–	–	–	80,002	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	2,735,000	(2,461,502)	273,498	–	–	–	–	273,498	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	4,189,546	(3,770,592)	418,954	–	–	–	–	418,954				

continued/...

39. SHARE OPTION SCHEME (continued)

Name or category of participant	Number of share options: At 1 January 2009	Share Consolidation adjustment (Note vii)	At 23 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Reclassified	At 31 December 2009	Date of grant	Exercise period (both dates inclusive) (Notes iii, iv, v and vi)	Exercise price (HK$) (Note vii)	Closing Price immediately before the date of grant (HK$) (Note viii)
Ms. XU Fang	–	–	–	–	–	–	8,727	8,727	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
(Note i)	–	–	–	–	–	–	73,000	73,000	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	–	–	–	–	–	–	81,727	81,727				
Mr. LAU Siu Ki	327,273	(294,546)	32,727	–	–	–	–	32,727	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	800,000	(720,000)	80,000	–	–	–	–	80,000	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	1,127,273	(1,014,546)	112,727	–	–	–	–	112,727				
Mr. SHI Cuiming	327,273	(294,546)	32,727	–	–	–	–	32,727	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	800,000	(720,000)	80,000	–	(80,000)	–	–	–	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	1,127,273	(1,014,546)	112,727	–	(80,000)	–	–	32,727				
Mr. WONG Toe	5,454,550	(4,909,096)	545,454	–	–	–	(545,454)	–	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
Yeung	5,000,000	(4,500,000)	500,000	–	–	–	(500,000)	–	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
(Note ii)	5,000,000	(4,499,999)	500,001	–	–	–	(500,001)	–	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	11,057,499	(9,951,750)	1,105,749	–	–	–	(1,105,749)	–	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
	26,512,049	(23,860,845)	2,651,204	–	–	–	(2,651,204)	–				
Sub-Total	139,521,036	(125,568,937)	13,952,099	–	(80,000)	(7,360,535)	(495,823)	6,015,741				
Employees	21,190,929	(19,071,912)	2,119,017	–	–	(305,441)	(103,636)	1,709,940	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
	66,155,000	(59,539,500)	6,615,500	–	(123,000)	(1,585,000)	(355,000)	4,552,500	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
	123,668,000	(111,301,200)	12,366,800	–	(115,000)	(2,593,000)	(650,000)	9,008,800	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
	230,501,538	(207,451,391)	23,050,147	–	–	(4,055,328)	(965,018)	18,029,801	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
Sub-Total	441,515,467	(397,364,003)	44,151,464	–	(238,000)	(8,538,769)	(2,073,654)	33,301,041				
Those who have	35,620,213	(32,058,296)	3,561,917	–	–	(112,894)	536,727	3,985,750	31 May 2005	1 March 2006 to 30 May 2010	3.804	4.1
contributed or	16,764,000	(15,087,600)	1,676,400	–	(256,000)	(236,000)	500,000	1,684,400	16 January 2006	17 July 2006 to 15 January 2011	2.108	2.2
may contribute	11,250,000	(10,125,000)	1,125,000	–	–	(1)	500,001	1,625,000	30 June 2006	1 April 2007 to 30 June 2011	2.32	2.28
to the Group	61,159,950	(55,043,956)	6,115,994	–	–	(94,364)	1,032,749	7,054,379	5 July 2007	5 April 2008 to 4 July 2012	3.1	3.1
Sub-Total	124,794,163	(112,314,852)	12,479,311	–	(256,000)	(443,259)	2,569,477	14,349,529				
Total	705,830,666	(635,247,792)	70,582,874	–	(574,000)	(16,342,563)	–	53,666,311				

39. SHARE OPTION SCHEME (continued)

Notes:

i. Mr. GUO Aiping and Ms. XU Fang were appointed as executive director and non-executive director respectively on 15 July 2009 and their share options under the share option scheme were reclassified under "Directors".

ii. Mr. LIU Fei was retired as an executive director of the Company on 12 May 2009, and Mr. YU Enjun was resigned as an executive director of the Company on 15 July 2009. Due to their resignation and retirement thereafter for other business interests, the share options of Mr. LIU Fei and Mr. YU Enjun under the share option scheme were lapsed accordingly. Mr. WONG Toe Yeung was resigned as an non-executive Director of the Company on 15 July 2009 for health reason, and the share options of Mr. WONG Toe Yeung under the share option scheme were reclassified under "Those who have contributed or may contribute to the Group".

iii. The share options granted on 31 May 2005 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 May 2010. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

iv. 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 2011. One-third of these share options are exercisable after the expiry of 6 months from the date of grant, a further one-third is exercisable after the expiry of 12 months from the date of grant, and the remaining one-third is exercisable after the expiry of 18 months from the date of grant.

v. 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 2011. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

vi. The share options granted on 5 July 2007 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 4 July 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.

vii. As a result of the ten-to-one Share Consolidation effective on 23 January 2009, adjustments were made on the same day to the exercise price and the number of shares falling to be allotted and issued in respect of the share options in accordance with the rules of the share option scheme adopted by the Company and the supplementary guidance issued by the Stock Exchange.

viii. The respective closing price immediately before the date of grant was adjusted as a result of the Share Consolidation.

ix. As a result of the Rights Issue, adjustments will need to be made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange. Further details of the said adjustments were set out in the announcement of the Company dated 6 January 2010.

39. SHARE OPTION SCHEME (continued)

Notes: (continued)

x. During the year, there was no share options granted.

The following assumptions were used to derive the fair value of the options granted in the previous years, using the Binomial Model:

Options granted on 31 May 2005

		At grant date	Modification on 3 July 2007
(i)	Exercise period	1 March 2006 to 30 November 2008	1 March 2006 to 30 May 2010
(ii)	Expected volatility	50% per annum	57% per annum
(iii)	Estimated average life	2.89 years	1.27 years
(iv)	Average risk-free interest rate	3.13% per annum	4.383% per annum
(v)	Early exercise assumption	When the share price is at least 200% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	1% per annum
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter	30% per annum for the first year after the grant date and 25% per annum thereafter

Options granted on 16 January 2006

		At grant date	Modification on 30 June 2006		Modification on 3 July 2007	
(i)	Exercise period	17 October 2006 to 15 July 2009	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2011
(ii)	Expected volatility	50% per annum	50% per annum	55% per annum	39% per annum	38% per annum
(iii)	Estimated average life	1.72 years	1.25 years	2.46 years	1.08 years	1.13 years
(iv)	Average risk-free interest rate	3.66% per annum	4.48% per annum	4.56% per annum	4.44% per annum	4.44% per annum
(v)	Early exercise assumption	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter	20% per annum for the first year after the grant date and 15% per annum thereafter		30% per annum for the first year after the grant date and 25% per annum thereafter	

NOTES TO FINANCIAL STATEMENTS

31 December 2009

39. SHARE OPTION SCHEME (continued)

Notes: (continued)

x. During the year, there was no share options granted. (continued)

Options granted on 30 June 2006

		At grant date			Modification on 3 July 2007		
(i)	Exercise period	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010	1 April 2007 to 30 June 2008	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011
(ii)	Expected volatility	55% per annum	55% per annum	50% per annum	39% per annum	39% per annum	39% per annum
(iii)	Estimated average life	2.87 years	3.22 years	1.64 years	1.15 years	1.15 years	1.81 years
(iv)	Average risk-free interest rate	4.59% per annum	4.61% per annum	4.50% per annum	4.48% per annum	4.48% per annum	4.48% per annum
(v)	Early exercise assumption	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter			30% per annum for the first year after the grant date and 25% per annum thereafter		

Options granted on 5 July 2007

		At grant date
(i)	Exercise period	5 April 2008 to 4 July 2012
(ii)	Expected volatility	41% per annum
(iii)	Estimated average life	1.16 years
(iv)	Average risk-free interest rate	4.60% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum
(vii)	Estimated rate of leaving service	30% per annum for the first year after the grant date and 25% per annum thereafter

The volatility rate of the share price of the Company was determined with reference to the movements of the Company's and its competitors' share prices.

BMI Appraisals Limited has been appointed to perform the valuation on the four batches of share options granted on 31 May 2005, 16 January 2006, 30 June 2006 and 5 July 2007.

40. SHARE AWARD SCHEME

Share Award Scheme A

On 3 July 2007, the Board approved the Share Award Scheme A pursuant to which shares of the Company may be awarded to employees of a member of the Group with vesting period as follows: One-third of the shares of the Company awarded under the Share Award Scheme A are vested after the expiry of 9 months from the date of award, a further one-third vested after the expiry of 18 months from the date of award, and the remaining one-third vested after the expiry of 27 months from the date of award, providing that the awardees remain employed by the Group.

Pursuant to the rules of the Share Award Scheme A, the Group has set up a trust, for the purpose of administering the Share Award Scheme A and holding the shares of the Company thereunder before they are vested. The trustee is designated specifically so that when a fixed number of the Group's shares are to be awarded to eligible employees, the Trustee is to purchase from the market out of cash contributed by the Group for such shares that the Company awarded.

On 24 September 2007, 72,500,000 awarded shares were awarded to a number of employees which would be transferred to the employees at nil consideration upon vesting between 3 April 2008 and 3 October 2009. The trustee purchased in aggregate 72,500,000 shares of the Company at a total cost (including related transaction costs) of approximately HK$21,092,000 during the period from 27 September 2007 to 31 December 2008.

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During the year 2008, the trustee transferred 23,159,905 shares to the awardees upon the vesting of the first one-third of the shares awarded under the Share Award Scheme A, and the total cost of the related vested shares was HK$6,738,000.

During the year under review, the trustee transferred 19,506,666 shares to the awardees on 3 January 2009 upon the vesting of the further one-third of the shares awarded under the Share Award Scheme A, and subsequently transferred about 16,292,760 shares (that is, 1,629,276 shares after the ten-to-one Share Consolidation effective on 23 January 2009) on 3 October 2009 upon vesting of the remaining one-third of the awarded shares. The total cost of the related shares vested during 2009 was HK$10,415,000.

40. SHARE AWARD SCHEME (continued)

Share Award Scheme B

On 11 March 2008, the Board resolved to adopt another restricted share award scheme B (i.e. Share Award Scheme B) as an incentive to retain and encourage the employees for the continual operation and development of the Group, pursuant to which existing shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme B. The Board further resolved to award 120 million shares to approximately 100 selected employees to recognise their contribution to the Group and as an incentive for retaining them.

On 24 December 2008, the Board approved the grants of 27,100,000 and 15,000,000 shares of the Company to be awarded under the Share Award Scheme B, and the shares of the Company were awarded to designated employees on 25 December 2008 and 3 January 2009 respectively, which would be transferred to the employees by the trustee at nil consideration upon vesting between 3 October 2009 and 3 April 2011.

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

During the year under review, the trustee transferred a total of 30,450,000 shares (that is, 3,045,000 shares after the ten-to-one Share Consolidation effective on 23 January 2009) to the awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK$9,624,000.

As a result of the Share Consolidation, adjustments were made to the number of shares awarded under the relevant Share Award Scheme which would be transferred to the employees at nil consideration upon vesting in accordance with the rules of the Share Award Scheme A and Share Award Scheme B respectively adopted by the Group, and adjustments were also made to the fair value per share on the date of grant, which took effect on 23 January 2009.

40. SHARE AWARD SCHEME (continued)

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

Share Award Scheme A:

	31 December 2009 Number of awarded shares
Outstanding at 1 January	39,013,332
Vested on 3 January	(19,506,666)
As adjusted after Share Consolidation	(17,556,000)
Outstanding at 23 January	1,950,666
Lapsed during the year	(321,390)
Vested on 3 October 2009	(1,629,276)
Outstanding at 31 December	–

Share Award Scheme B:

	31 December 2009 Number of awarded shares
For the shares granted on 25 December 2008	
Outstanding at 1 January	27,100,000
As adjusted after Share Consolidation	(24,390,000)
Outstanding at 23 January	2,710,000
Vested on 25 December 2009	(2,545,000)
Lapsed during the year	(165,000)
Outstanding at 31 December	–

NOTES TO FINANCIAL STATEMENTS

31 December 2009

40. SHARE AWARD SCHEME (continued)

Share Award Scheme B: (continued)

	31 December 2009 Number of awarded shares
For the shares granted on 3 January 2009	
Granted at 3 January	**15,000,000**
As adjusted after Share Consolidation	**(13,500,000)**
Outstanding at 23 January	**1,500,000**
Vested on 3 October 2009	**(500,000)**
Lapsed during the year	**–**
Outstanding at 31 December	**1,000,000**

The remaining vesting period of the awarded shares outstanding as at 31 December 2009 is as follows:

	31 December 2009 Remaining vesting period (both dates inclusive)	Number of awarded shares
For the shares granted on 3 January 2009		
Fair value of HK$0.72 per share	1 January 2010 to 3 April 2011	1,000,000

41. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 62 of the financial statements.

The Group's capital reserve arose mainly from a capital injection.

The Group's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries established in the PRC should be transferred to the statutory reserves which are restricted as to use.

(b) Company

	Contributed surplus HK$'000	Share premium account HK$'000 (Restated)	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000 (Restated)	Total HK$'000
At 1 January 2008							
As previously reported	669,907	1,584,738	(9,570)	3,766	42,718	(2,327,715)	(36,156)
Total comprehensive income for the year	–	–	–	–	–	281,044	281,044
Issue of shares and exercise of share options	–	5,952	–	–	(2,782)	–	3,170
Shares repurchased	–	(13,732)	–	–	–	–	(13,732)
Equity-settled share option arrangements	–	–	–	–	22,480	–	22,480
Shares purchased for Share Award Scheme	–	–	(44,991)	8,331	–	–	(36,660)
Reclassification of vested shares	–	(1,249)	6,738	(5,489)	–	–	–
At 31 December 2008	669,907*	1,575,709*	(47,823)	6,608*	62,416*	(2,046,671)*	220,146

NOTES TO FINANCIAL STATEMENTS

31 December 2009

41. RESERVES (continued)

(b) Company (continued)

	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Proposed final dividends HK$'000	Total HK$'000
At 1 January 2009 (Restated)	669,907	1,575,709	(47,823)	6,608	62,416	(2,046,671)	-	220,146
Total comprehensive income for the year	-	-	-	-	-	39,560	-	39,560
Issue of shares and exercise of share options	-	1,280	-	-	(620)	-	-	660
Reclassification of lapsed share options	-	14,804	-	-	(14,804)	-	-	-
Equity-settled share option arrangements	-	-	-	-	3,767	-	-	3,767
Shares purchased for Share Award Scheme	-	-	-	4,406	-	-	-	4,406
Reclassification of vested shares	-	(9,413)	20,039	(10,626)	-	-	-	-
Proposed final dividends	-	(37,570)	-	-	-	-	37,570	-
At 31 December 2009	669,907*	1,544,810*	(27,784)	388*	50,759*	(2,007,111)*	37,570	268,539

* These reserve accounts comprise the reserves of approximately HK$258,753,000 (2008: HK$267,969,000) in the statement of financial position.

The Company's contributed surplus represents the excess of the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Company reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

As at 31 December 2009, before payment of the proposed final dividend for the year ended 31 December 2009 the Company had an aggregate of HK$1,582,380,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. As the aforesaid contributed surplus represents premium arising on an issue of shares of the Company, the entire amount of HK$669,907,000 standing to the credit of the contributed surplus account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After taking into account of the proposed dividend, the amount of premium account would be HK$1,544,810,000, and after transfer of the contributed surplus as aforesaid, the amount would become HK$2,214,717,000.

42. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for the financial statements were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**455,098**	250,000
	–	–	**455,098**	250,000

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$302,583,000 (2008: HK$41,580,000).

43. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to six years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within one year	**18,589**	18,739
In the second to fifth years, inclusive	**28,295**	20,421
Over five years	**7,209**	–
	54,093	39,160

NOTES TO FINANCIAL STATEMENTS

31 December 2009

44. CAPITAL COMMITMENTS

As at the end of the reporting period, the Group had no significant capital commitments contracted but not provided (2008: Nil).

45. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	2009	2008
	HK$'000	HK$'000
Transactions with the ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	**784**	5,664
Interest expenses	**2,493**	2,019
Purchase of raw materials*	**560,256**	415,100
Rental charges	**–**	8
Rental income	**5**	–
Transactions with fellow subsidiaries		
Purchases of raw materials*	**95,186**	90,868
Short-term loan obtained	**226,960**	393,400
Interest expenses	**2,073**	4,091
Rental income	**187**	404
Rental charges	**5,359**	5,028
Provision of TD-SCDMA technology	**4,735**	899
Supply of raw materials	**26**	179,655
Sales of spare parts	**5,038**	–
Purchase of products	**5,217**	210,491
Purchase of fixed assets	**922**	28,051
Value-added service	**51**	–
Transactions with a jointly-controlled entity		
Sales of products	**3,596**	5,998
Interest expenses	**1**	17

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

45. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Group

	Due from related companies		Due to related companies	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000 (Restated)
Ultimate controlling shareholder	**11,360**	11,357	**99,746**	6,585
Fellow subsidiaries	**944**	6,019	**38,500**	44,805
Jointly-controlled entity	**1,985**	–	**–**	414
	14,289	17,376	**138,246**	51,804

The balances are mainly trading balances, and are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the maximum outstanding balances of amounts due from related companies are as follows:

	Year ended 31 December	
	2009	2008
	HK$'000	HK$'000
TCL Corporation*	**11,365**	11,729
TTE Technology Inc.	**5,751**	62,580
Manufacturas Avanzadas. S.A. de C.V.	**1,624**	1,726
TCL Digital Technology (Shenzhen) Co. Ltd.	**201**	297
Huizhou Cellutel Communication Limited	**1,985**	5,145

* The balance is mainly trading balances, and is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2009

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2009 HK$'000	2008 HK$'000
Short-term employee benefits	**12,981**	18,981
Post-employment benefits	**139**	121
Equity-settled share option expense	**1,708**	6,472
Total compensation paid to key management personnel	**14,828**	25,574

Further details of directors' emoluments are included in note 12 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2009

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	**Loans and receivables HK$'000**	**Available-for-sale financial assets HK$'000**	**Total HK$'000**
Available-for-sale investments (note 24)	–	–	**20,245**	**20,245**
Trade receivables (note 26)	–	**1,304,069**	–	**1,304,069**
Factored trade receivables	–	**224,223**	–	**224,223**
Notes receivable	–	**4,142**	–	**4,142**
Financial assets included in prepayments, deposits and other receivables	–	**129,176**	–	**129,176**
Due from related companies	–	**14,289**	–	**14,289**
Derivative financial instruments (note 32)	**34,593**	–	–	**34,593**
Pledged deposits (note 28)	–	**1,187,336**	–	**1,187,336**
Restricted deposits received from rights issue excess application	–	**1,604,495**	–	**1,604,495**
Cash and cash equivalents (note 28)	–	**1,169,750**	–	**1,169,750**
	34,593	**5,637,480**	**20,245**	**5,692,318**

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade and notes payables (note 31)	**–**	**1,073,764**	**1,073,764**
Other payables and accruals	**–**	**176,017**	**176,017**
Other payable arising from rights issue excess application	**–**	**1,604,495**	**1,604,495**
Interest-bearing bank and other borrowings (note 29)	**–**	**1,461,688**	**1,461,688**
Bank advances on factored trade receivables	**–**	**224,223**	**224,223**
Due to related companies	**–**	**138,246**	**138,246**
Derivative financial instruments (note 32)	**7,723**	**–**	**7,723**
	7,723	**4,678,433**	**4,686,156**

2008

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000 (Restated)	Available-for-sale financial assets HK$'000	Total HK$'000 (Restated)
Available-for-sale investments (note 24)	–	–	20,244	20,244
Trade receivables (note 26)	–	836,819	–	836,819
Factored trade receivables	–	153,392	–	153,392
Notes receivable	–	16,958	–	16,958
Financial assets included in prepayments, deposits and other receivables	–	149,161	–	149,161
Due from related companies	–	17,376	–	17,376
Derivative financial instruments (note 32)	143,802	–	–	143,802
Pledged deposits (note 28)	–	1,670,499	–	1,670,499
Cash and cash equivalents (note 28)	–	684,382	–	684,382
	143,802	3,528,587	20,244	3,692,633

NOTES TO FINANCIAL STATEMENTS

31 December 2009

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2008

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000 (Restated)	Total HK$'000 (Restated)
Trade and notes payables (note 31)	–	590,654	590,654
Other payables and accruals	–	208,138	208,138
Convertible bonds	108,725	33,333	142,058
Interest-bearing bank and other borrowings (note 29)	–	1,871,768	1,871,768
Bank advances on factored trade receivables	–	153,392	153,392
Due to the related companies	–	51,804	51,804
Derivative financial instruments (note 32)	68,897	–	68,897
	177,622	2,909,089	3,086,711

Financial assets

	Company	
	2009	2008
	Loans and receivables HK$'000	Loans and receivables HK$'000
Due from subsidiaries (note 21)	**1,094,701**	1,064,803
Restricted deposits received from rights issue excess application	**1,604,495**	–
Cash and cash equivalents (note 28)	**361,931**	40,292
	3,061,127	1,105,095

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	2009			2008		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables	–	2,021	2,021	–	354	354
Other payables and accruals	–	8,673	8,673	–	35,914	35,914
Other payable arising from rights issue excess application	–	1,604,495	1,604,495	–	–	–
Due to subsidiaries	–	104,691	104,691	–	–	–
Convertible bonds	–	–	–	33,333	108,725	142,058
	–	1,719,880	1,719,880	33,333	144,993	178,326

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into forward currency contracts so as to manage the currency risks arising from the Group's operations and its sources of finance. The Group does not hold or issue derivative financial instruments except for forward currency contracts for trading purposes. The Board reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's convertible bonds and bank loans with a combination of fixed and floating rate debts.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in Hong Kong dollar interest rate of the Group's convertible bonds, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2009		
Hong Kong dollar	25	–
Hong Kong dollar	(25)	–
2008		
Hong Kong dollar	25	(707)
Hong Kong dollar	(25)	719

As a result of the full redemption of Convertible bonds, there was no interest rate risk arising from Convertible bonds in 2009.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in Euro, US$ and RMB.

It is the Group's policy to negotiate the terms of the hedging derivatives to match the terms of the hedged item to maximise hedge effectiveness.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
		HK$'000	HK$'000
2009			
If Hong Kong dollar weakens against Euro	(5%)	10,055	–
If Hong Kong dollar strengthens against Euro	5%	(10,055)	–
2008			
If Hong Kong dollar weakens against Euro	(5%)	6,172	(6,545)
If Hong Kong dollar strengthens against Euro	5%	(6,172)	6,545

* Excluding retained profits

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and trade receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

Concentration of credit risk is managed by customer/counterparty and by geographical region. There is no significant concentration of credit risk with the Group.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest bearing loans. The maturity profile of the Group's borrowings are disclosed in note 29, note 30, note 32 and note 34 to the financial statements.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity investments underlie the fair values of derivatives. As at the end of 2008, the Group was exposed to this risk through the conversion rights attached to the convertible bonds (note 34) issued by the Company. As a result of the full redemption of Convertible bonds, there was no equity price risk arising from Convertible bonds in 2009.

The following table demonstrates the sensitivity to every 10% change in the volatility and equity price of the conversion option of the convertible bonds, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of reporting period.

	Increase/ (decrease) in percentage	**Increase/ (decrease) in profit before tax**
		HK$'000
2009		
Volatility	10	–
Volatility	(10)	–
2008		
Volatility	10	(1,036)
Volatility	(10)	709

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk (continued)

	Increase/ (decrease) in percentage	Increase/ (decrease) in profit before tax HK$'000
2009		
Equity price	10	–
Equity price	(10)	–
2008		
Equity price	10	(440)
Equity price	(10)	363

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio at appropriate level. Net debt includes interest-bearing bank and other borrowings, bank advances on factored trade receivables, amounts due to the related companies, trade and notes payable and other payables, accruals, less cash and cash equivalents, restricted deposits received from rights issue excess application and pledged deposits. Capital includes convertible bonds and equity attributable to equity holders of the parent. The gearing ratios as at the end of reporting period were as follows:

Group	2009 HK$'000	2008 HK$'000 (Restated)
Interest-bearing bank and other borrowings	**1,461,688**	1,871,768
Bank advances on factored trade receivables	**224,223**	153,392
Trade and notes payables	**1,073,764**	590,654
Other payables and accruals	**737,149**	557,817
Other payable arising from rights issue excess application	**1,604,495**	–
Due to related companies	**138,246**	51,804
Less: Cash and cash equivalents	**(1,169,750)**	(684,382)
Restricted deposits received from rights issue excess application	**(1,604,495)**	–
Pledged deposits	**(1,187,336)**	(1,670,499)
Net debt	**1,277,984**	870,554
Convertible bonds, the liability and derivative components	**–**	142,058
Equity attributable to owners of the parent	**1,094,701**	1,064,803
Adjusted capital	**1,094,701**	1,206,861
Adjusted capital and net debt	**2,372,685**	2,077,415
Gearing ratio	**54%**	42%

48. EVENT AFTER THE REPORTING PERIOD

To meet the requirement of ODM business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK$1.00 per rights share and under the term of one rights share for every two existing shares. The rights issue was completed on 4 January 2010 and 357,811,935 shares were issued. As a result of the rights issue, adjustments will need to be made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange. The following tables set out the adjustments that have been made with effect from 6 January 2010.

	Before the rights issue		After the rights issue	
Grant date	Exercise price per share HK$	No. of outstanding share options	Exercise price per share HK$	No. of outstanding share options
31 May 2005	3.804	6,559,689	2.973	8,389,665
16 January 2006	2.108	7,171,900	1.648	9,172,857
30 June 2006	2.320	11,863,800	1.813	15,173,798
5 July 2007	3.100	27,983,477	2.423	35,790,792

49. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 10 March 2010.

FIVE YEAR FINANCIAL SUMMARY

31 December 2009

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,360,886**	4,538,281	4,971,081	5,501,627	5,663,696
Cost of sales	**(3,412,196)**	(3,726,663)	(4,123,975)	(4,709,736)	(5,575,958)
Gross profit	**948,690**	811,618	847,106	791,891	87,738
Other revenue and gains	**169,964**	273,391	70,722	142,981	187,551
Research and development expenses	**(247,113)**	(262,924)	(173,343)	(177,168)	(346,795)
Selling and distribution costs	**(366,084)**	(389,388)	(336,954)	(371,228)	(877,340)
Administrative expenses	**(340,366)**	(393,191)	(330,643)	(300,420)	(894,264)
Other operating expenses	**(25,601)**	(1,588)	(1,510)	(15,308)	(7,469)
Finance costs excluding interest on convertible bonds	**(39,139)**	(28,393)	(16,185)	(29,118)	(20,867)
Share of losses of associates	**(1,455)**	–	(16,943)	(9,498)	–
Share of profit/(loss) of a jointly-controlled entity	**59**	(1,399)	–	–	–
	98,955	8,126	42,250	32,132	(1,871,446)
Changes in fair value of the derivative component of convertible bonds	**(58,037)**	68,078	(10,041)	–	–
Interest on convertible bonds	**(6,839)**	(39,959)	(22,747)	–	–
Profit/(loss) before tax	**34,079**	36,245	9,462	32,132	(1,871,446)
Income tax expense	**(11,074)**	(7,754)	23,601	(16,709)	(24,630)
Profit/(loss) for the year	**23,005**	28,491	33,063	15,423	(1,896,076)
ATTRIBUTABLE TO:					
Owner of the parent	**23,005**	28,491	33,063	15,423	(1,608,204)
Minority interests	**–**	–	–	–	(287,872)
	23,005	28,491	33,063	15,423	(1,896,076)

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**6,765,926**	4,564,436	4,375,663	3,686,012	4,083,768
Total liabilities	**(5,671,225)**	(3,499,633)	(3,323,240)	(3,014,025)	(4,042,823)
	1,094,701	1,064,803	1,052,423	671,987	40,945

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