Annual Report 2009

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 01070

16TH ASIAN GAMES Guangzhou 2010

TCL 创意感动生活 The Creative Life

The official partner of 2010 Guangzhou Asian Games

Corporate Profile

TCL Multimedia Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") is one of the world's largest global TV manufacturers and distributors and its products are sold all over the world. Headquartered in China, the Group operates its manufacturing plants and R&D centres across all major continents. The ultimate holding company of the Company is TCL Corporation.

Contents

Financial Highlights

FINANCIAL PERFORMANCE

(HK$ Million)	**2009**	2008
Turnover	**30,343**	25,773
Gross profit	**4,924**	4,107
Gross profit margin (%)	**16.2%**	15.9%
Net profit/(loss)	**397**	(268)
Basic EPS/(LPS) (HK cents)	**39.15**	(36.15)
Dividend per share (HK cents)	**12.00**	–

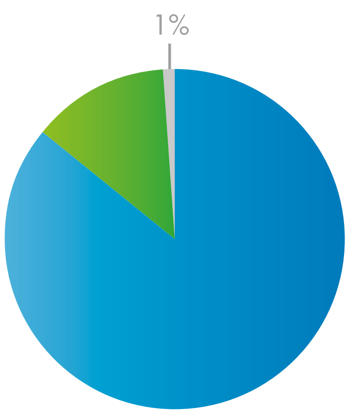
FINANCIAL POSITION

(HK$ Million)	**2009**	2008
Property, plant and equipment	**1,603**	1,391
Cash and bank balances	**2,079**	2,158
Total assets	**14,921**	12,617
Total liabilities	**11,209**	9,204
Interest-bearing debts	**2,260**	2,184
Net assets	**3,712**	3,413

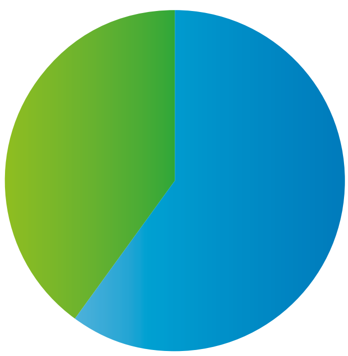
OPERATION INDICATORS

	2009	2008
Return on equity (%)	**11%**	(8)%
Finished goods inventory turnover (days)	**35**	35
Trade receivables turnover (days)	**57**	56
Trade payables turnover (days)	**80**	82
Current ratio	**1.2**	1.2
Gearing ratio (%)	**2.6%**	0.8%

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

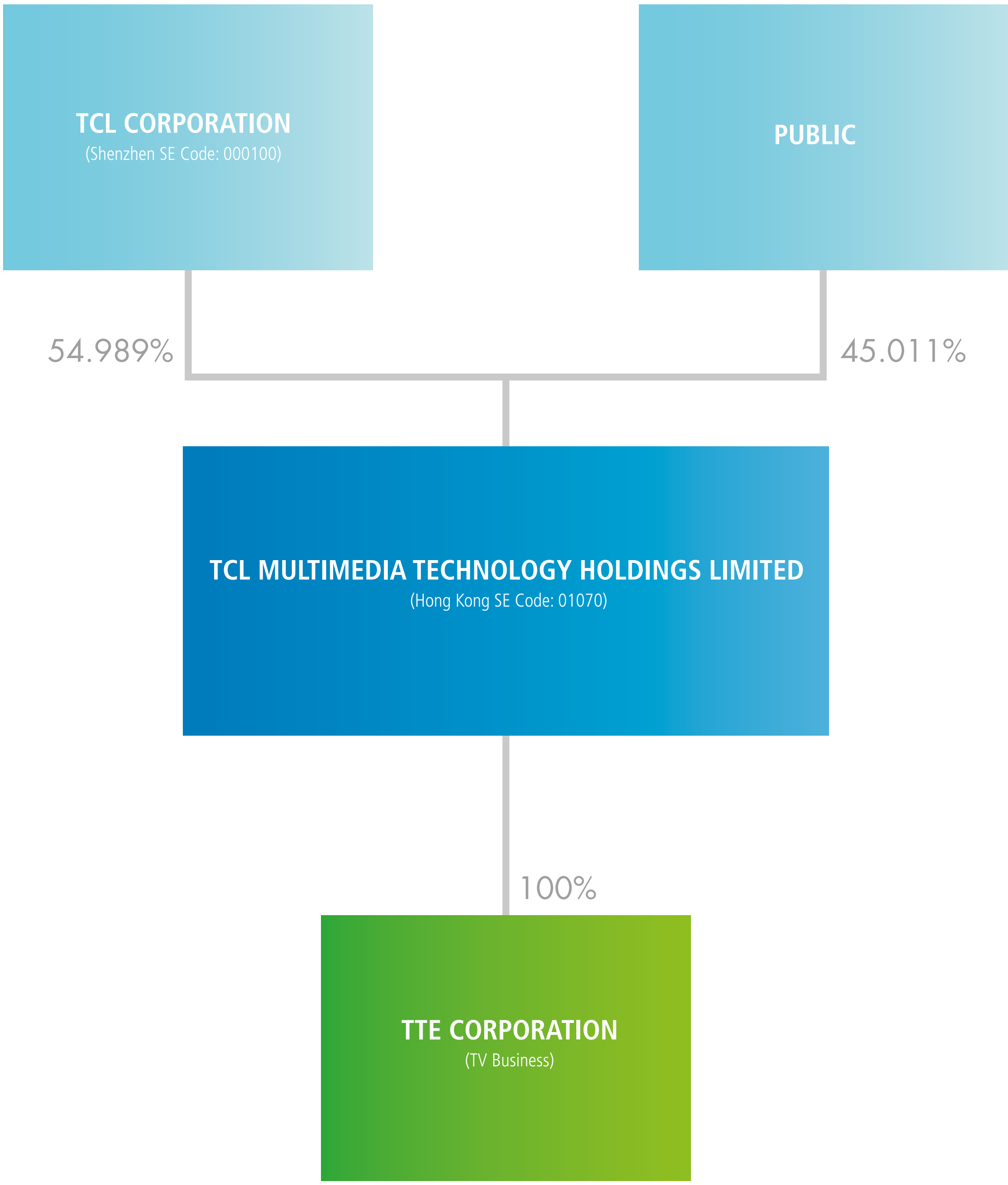


TURNOVER BREAKDOWN BY PRODUCTS



TURNOVER BREAKDOWN BY REGIONAL TV BUSINESS CENTRES

Corporate Structure



Year in Review 2009

January

TCL was selected as Global Top 20 Enterprises in the TV Industry for the "International Branding, Global Branding" themed selection at the International Consumer Electronics Show in Las Vegas, the USA.

The Group announced that it had entered into the Framework Agreement for disposing of its interests in a subsidiary in Wuxi.

April

The Group signed an agreement with Chengdu municipal government to set up two new LCD flat-screen TV production lines in its Chengdu plant in the high-tech district in Sichuan, China

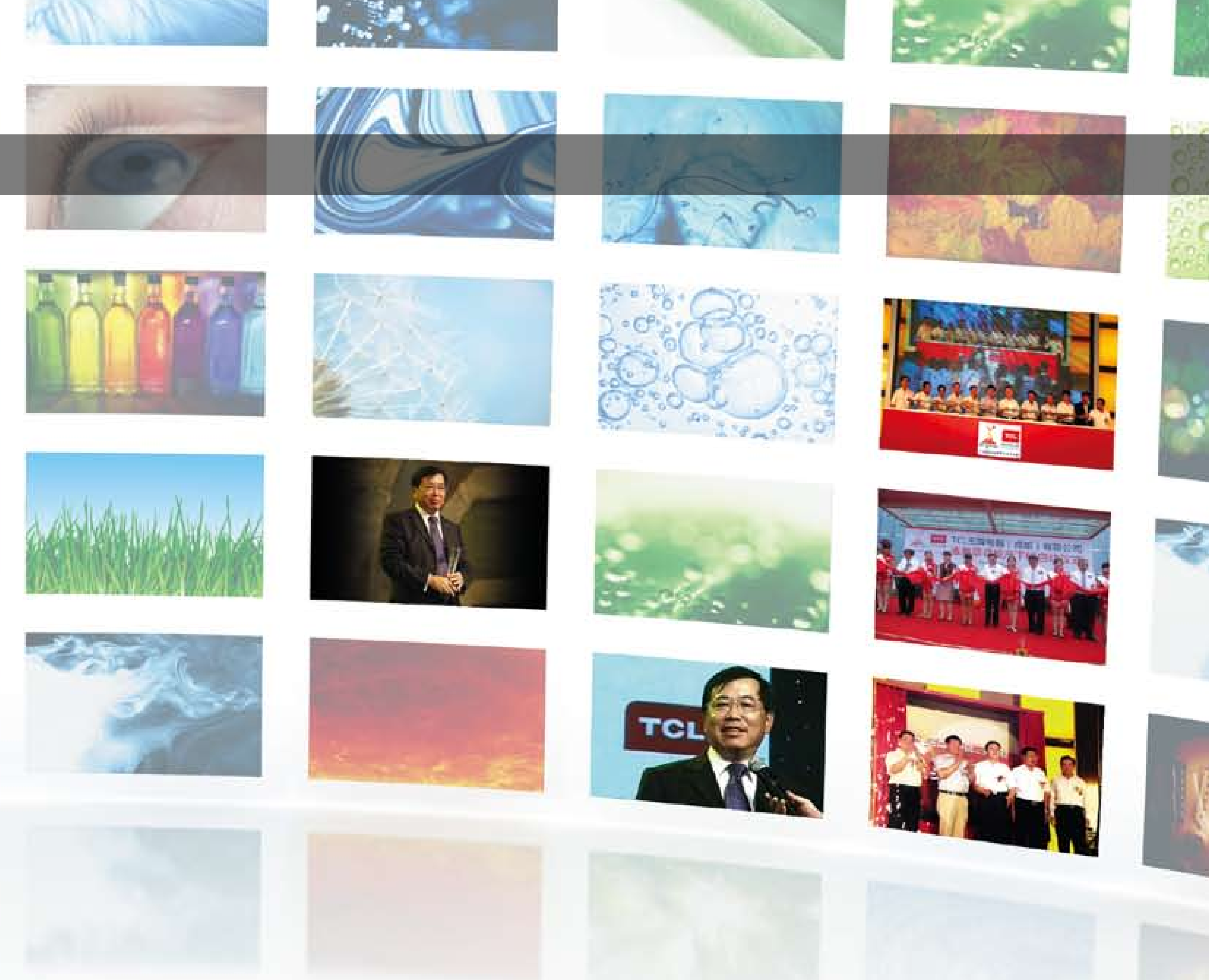
June

TCL became the official partner of the Chinese Men's National Basketball Team and the official sponsor of the Chinese Basketball Association.

The Group announced the completion of disposal of equity interest in a subsidiary in Wuxi.

July

The Group's LCD flat-screen TV production lines in its Chengdu plant in Sichuan, China commenced operation



August

TCL was elected by CCTV as "60th Anniversary of the Founding of New China – 60 Brands Promoting China's Economy and with Impact on People's Live"

September

The Group's LCD TV Integration Plant commenced operation and the ground breaking ceremony for the third phase of TCL LCD Industry Park in Huizhou City, Guangdong Province

Mr. Leong Yue Wing, the Chief Executive Officer ("CEO") and an executive director of the Company, became a senior consultant of the Company and remained as executive director of the Company

October

Mr. Yu Guanghui, an executive director and the president of the Company, became CEO of the Company.

December

According to a joint research study by RREEF, Global Billboard and Beijing Famous-Brand Evaluation Co. Ltd., TCL maintained the No.1 TV brand position among the "Most Valuable Brand in the PRC" in 2009 with a brand value of RMB41.7 billion.

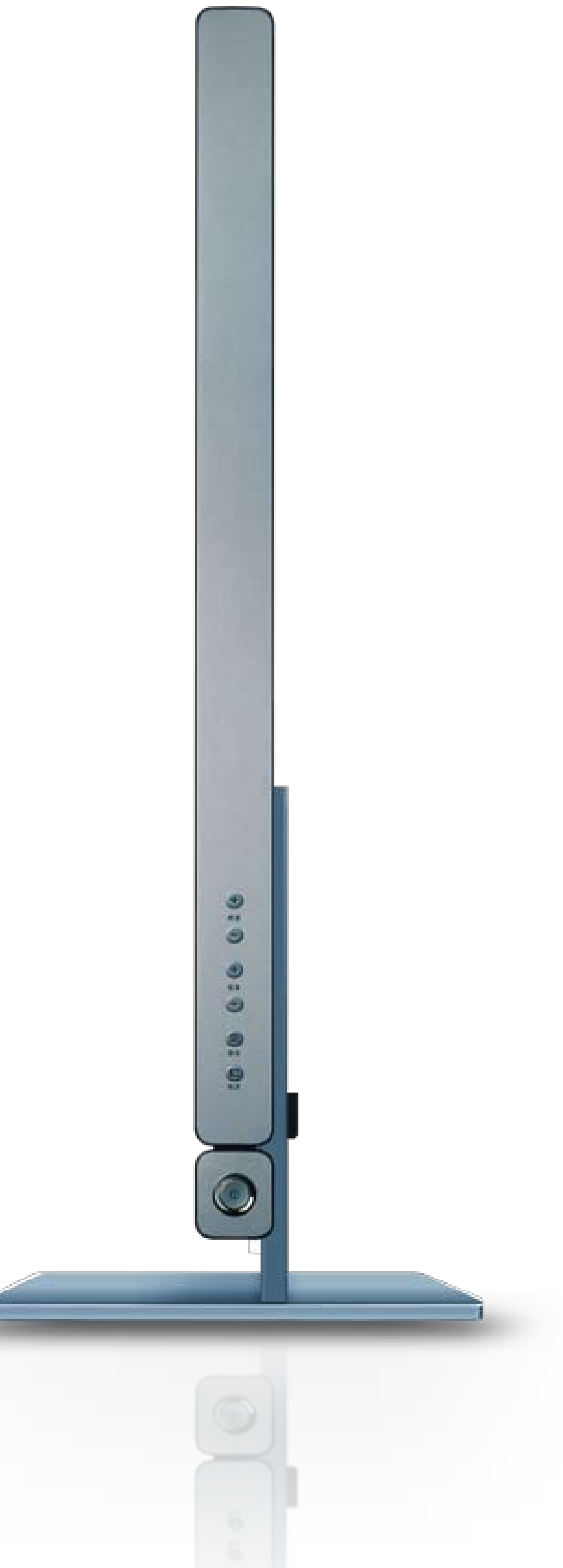
"With the LCD module plant and LCD TV Integration Plant commenced operation, TCL has expanded further upstream in the TV industry chain and has designated 2010 as the starting point of "Healthy Growth" phase in its internationalisation strategy."

Chairman's Statement

Dear Shareholders,

2009 was a year full of challenges for the global economy and also marked the 10th year of TCL's global expansion. Economic globalization is a trend. Therefore, it is vital for Chinese enterprises to move forward the internationalization process although it is a long-term mission, particularly during economic recession. The Group adheres to its policy of internationalization and is determined to become a multinational enterprise. Over the years, the Group has committed to strengthen its product competitiveness and maintained its leading position in the domestic market through technical research and development, optimization of production process and supply chain. Leveraging these advantages, the Group recorded good results despite difficult operating environment. During the year under review, the Group's results achieved a turnaround and continued to improve steadily. It recorded HK$397 million profit in 2009 as compared with HK$268 million loss in 2008, while turnover increased by 17.7% year-on-year to HK$30,343 million. Moreover, the Group's total TV sales volume reached 14.24 million sets in 2009. LCD TV sales volume maintained rapid growth. The Group's LCD TV sales volume in 2009 significantly increased by 100.1% to 8.37 million sets compared to the previous year, accounted for 58.8% of total TV sales in 2009, versus 29.1% in 2008 which indicated the Group had successfully completed business transition to LCD TVs.

Chairman's Statement



With the trend of market transition to LCD TVs, the Group strives to invest more resources in developing its LCD TV business to seize this opportunity. The Group's LCD TV Integration Plant located in Huizhou, the PRC commenced operation in September 2009, with additional production annual capacity of 5 million sets. The plant is built adjacent to its ultimate holding company, TCL Corporation's module plant in cooperation with Samsung. The Group is able to expand production capacity, lower costs, increase efficiency and enhance core competitiveness through the assembly process vertical integration.

With a solid foundation in the global industry structure, the Group maintained its leading position in the PRC and recorded stable growing results. At the same time, the business structure of key overseas markets, including Europe, North America and Emerging countries have also been improving. The Group also achieved absolute advantages in certain overseas markets. Although the Group's effort to improve its overseas business was delayed by the financial tsunami, it had made good progress as the global economy gradually recovered and the competitiveness of its overseas business had been enhanced with costs and business structure optimized.

BUSINESS REVIEW

TV Business

The PRC Market remained the main growth driver of the Group's business. In 2009, the PRC government continued to expand favorable stimulus plans on the Consumer Electronics industry, including "Household Appliances Subsidy Scheme", "Home Appliances Replacement Scheme" and "Promotion of Energy Efficient Appliances", which drove the Group's strong sales growth in the PRC Market. During the year under review, LCD TV sales volume in the PRC Market soared by 215.8% to 4.63 million sets compared to 2008. In addition, the Group has strived to enhance its innovative capability, and achieved a significant breakthrough in its research and development. The Group launched high value added products in the PRC Market, including Internet TVs and LED TVs. This has not only enhanced product differentiation and competitiveness, but also solidified its leading position in the market and led to further increased in brand value. According to a joint research study by RREEF, Global Billboard and Beijing Famous-Brand Evaluation Co. Ltd., TCL maintained the No.1 TV brand position among the "Most Valuable Brand in the PRC" with a brand value of RMB41.7 billion. Moreover, the Group maintained its No.1 position in the PRC TV market for six consecutive years. Its LCD TV market share in the PRC increased from 11.0% in 2008 to 15.8% in 2009

and was ranked No.3 (DisplaySearch 2009 Data). This indicates that the Group has achieved a milestone by building its own brand globally and also raising its brand value.

In Overseas Markets, attributable to the growing popularity of Digital Video Broadcasting - Terrestrial ("DVB-T") (MPEG-4) technology in the European Markets, sales volume of the Group's LCD TVs equipped with this technology contributed a strong growth. In 2009, total sales volume of LCD TVs in European Markets increased by 77.5% over the previous year. Although North American Markets were deeply impacted by the financial tsunami, the Group's business in the region recovered stably as the U.S. government implemented a series of economic stimulus plans. Sales to major retail chains continued to increase with the Group's enhanced marketing efforts. In addition, the Group adopted stringent initiatives to reduce costs and optimize sales chain, offsetting the impact of rising panel costs on profit margin. Emerging Markets made significant contribution to the Group's business growth. Through sponsorship of major sporting events including "2010 Guangzhou Asian Games" and participation in the "Road of Asia" marketing campaign across various countries and regions, the Group successfully promoted its brand image, generated greater exposure and adopted sports marketing strategies which helped boost sales. TV sales volume in Emerging Markets in November recorded encouraging growth even in sales off season. The Group's TV sales volume in Vietnam and Indonesia were both ranked within the top three. For Strategic OEM, the Group dedicated itself to providing its customers with competitively priced and highly vertically integrated product supply solutions and to actively develop new international customers and orders.

AV business

The Group's AV business achieved exceptional growth through its strong research and development capabilities. Both annual sales volume and turnover of blue ray products hit record highs mainly attributable to the Group's significant breakthroughs in core technologies of China Blue Ray Disc Player. Total sales volume of AV Products in 2009 increased 26.0% to 21.29 million sets compared with 16.89 million sets in 2008. According to Techno Systems Research Co., Ltd., sales volume of the Group's DVD products has remained the highest in the world since 2007.

OUTLOOK

Looking forward, the PRC Market will maintain strong and stable growth driven by the PRC government's policies on stimulating domestic demand. The Group's Overseas Markets business will also continue to improve amid a gradual recovering global economy. Meanwhile, the Group has laid a solid foundation on products innovation, sales channels and service networks. I believe the Group will face a golden period of development and enter a high growth phase leveraging its enhanced core competitiveness.

With the technology improvement, industry integration development and the PRC government's plan to connect the telecommunications network, broadcasting network and the Internet before 2015, the TV industry will be accelerated into a new era of connectivity. As the growing trend of the industry, networks convergence will bring ample business opportunities for the Group's Internet TV products.

It is estimated that there are 460 million sets of CRT TVs in the PRC Market which will be replaced by LCD TVs in the next ten years. The PRC Market will enter into a rapid growth phase. With the LCD module plant and LCD TV Integration Plant commenced operation, TCL has expanded further upstream in the TV industry chain. TCL Corporation, the Group's ultimate holding company, and Shenzhen Century Science & Technology Investment Corporation has started building an 8.5-generation LCD panel plant with a total investment of RMB24.5 billion in

January 2010. This indicates that the Group will expand its business to core components and marks a key step to industrial restructuring.

Overall, TCL has designated 2010 as the starting point of 'Healthy Growth' phase in its internationalization strategy with target to generate profit. The Group will leverage its local advantages and global production capabilities, and implement focused marketing strategy to expand its business. The Group will also strive to seize business opportunities and take proactive steps to prepare for challenges ahead through its core advantages and enhanced products competitiveness. The Group will make efforts to sustain leading position in the PRC Market while aiming to achieve significant breakthroughs in European, North American and Emerging Markets, becoming a respected and innovative leading global enterprise.

On behalf of the Board, I would like to take this opportunity to show my deepest gratitude to our executives and staff for their contribution in 2009. My sincere thanks also goes to the trust and support from shareholders. I wish our executives and staff to maintain their dedication and contribute to the Group's business development.

LI Dongsheng
Chairman

Hong Kong, 10 Mach 2010

BUSINESS REVIEW

2009 was a crucial year for the development of the TV industry. The rising popularity of LCD TVs led the market to transit rapidly from CRT TVs to LCD TVs. Although the global economy was volatile due to the financial tsunami, the Group succeeded in turning crises into opportunities and achieved sound results. The Group implemented highly efficient operational strategies to strengthen its business foundation and seize opportunities to increase market share. The Group also reached its target for steady growth amidst intense market competition through continuous efforts in enhancing product competitiveness. For the year ended 31 December 2009, the Group's turnover increased by 17.7% year-on-year to HK$30,343 million. The Group achieved a turnaround in 2009 to HK$397 million profit, as compared with HK$268 million loss in 2008. Basic earnings per share was HK39.15 cents (2008: basic loss per share HK36.15 cents).

Confronted with intense industry competition, the Group continued to improve product quality and research and development capability to meet consumers' demand with an optimized product mix. Together with stringent cost control and risk management measures, the Group maintained its leadership in the TV market. Meanwhile, the Group also implemented prudent financial strategies to strengthen its working capital management and to reduce financial expenses and risks, which laid a solid financial foundation for the business development.

Management Discussion and Analysis

Moreover, the Group is committed to further reducing production costs and increasing overall operational capacity through vertical integration. The LCD TV Integration Plant located in Huizhou, the PRC, commenced operation in September, 2009. With this additional production annual capacity of 5 million sets, the Group's overall LCD TV production capacity has been greatly enhanced. It is the one of the largest, independent invested LCD TV integration projects in the PRC equipped with the most advanced and comprehensive technologies, representing a key step forward in the Group's industry competitiveness.

TV Sales

During the year under review, the Group's LCD TV sales volume reached 8.37 million sets, a remarkable increase of 100.1% over last year. It achieved record high annual sales volume and the growth rate substantially exceeded the market average. LCD TV sales volume accounted for 58.8% of the total TV sales in 2009, versus 29.1% in 2008. Moreover, LCD TV sales volume in the PRC Market for 2009 soared by 215.8% to 4.63 million sets compared to last year. This demonstrated the gradual success of the Group's product mix strategy and decisive shift to the LCD product line.

Management Discussion and Analysis

With the popularity of digital signal broadcasting, the Group launched 117 new TV models according to market trend and demand, including flagship products – blue ray TV and Internet TV. The Group's blue ray TV supports USB multi-format and 1080P Full HD display, while Internet TV integrates film, entertainment, education and information experiences all in one TV set that meet the diversified demand of users. The Group continued to enhance its in-house developed "Natural Light" technology, together with "Circularly Polarized Light" and "Dynamic Backlight", these cutting-edge technologies can upgrade picture quality, save energy and protect viewers' eyesight, thus dramatically enhancing the competitiveness of the Group's products.

Over the years, the Group has strived to enhance its innovative capability to increase its brand value and further fortify its leading position in the PRC Market. Numerous breakthroughs in TV core technologies were achieved, including "Natural Light", 3D display and Internet TV technology. According to a joint research study by RREEF, Global Billboard and Beijing Famous-Brand Evaluation Co. Ltd., TCL maintained the No.1 TV brand position among the "Most Valuable Brand in the PRC" in 2009 with a brand value of RMB41.7 billion. At the same time, the Group not only maintained its No.1 position in the PRC TV market for six consecutive years, but also its LCD TV market share in the PRC Market increased from 11.0% in 2008 to 15.8% in 2009 and was ranked No.3 (DisplaySearch 2009 Data).

Sales volumes by region are indicated below:

	2009 ('000 sets)	2008 ('000 sets)	**Change**
LCD TVs	**8,373**	4,184	+100.1%
– PRC	**4,629**	1,466	+215.8%
– Overseas	**3,744**	2,718	+37.7%
CRT TVs	**5,865**	10,182	(42.4%)
– PRC	**2,968**	5,382	(44.9%)
– Overseas	**2,897**	4,800	(39.6%)
Total TV sales volume	**14,238**	14,366	(0.9%)
AV products	**21,291**	16,893	+26.0%

The PRC Market

Benefiting from the market transition from CRT TVs to LCD TVs and continuous expansion of the "Household Appliances Subsidy Scheme", "Home Appliances Replacement Scheme" and "Promotion of Energy Efficient Appliances" supporting policies, the Group continued to maintain strong growth in the PRC Market for the year under review. A total of 176 TV products of the Group were approved as the subsidized items during the four phases of "Household Appliances Subsidy Scheme" bidding, driving up the sales of third and fourth tier cities in the PRC. Meanwhile, "Home Appliances Replacement Scheme" would help facilitate the replacement of appliances in first and second tier cities. LCD TV sales volume from the PRC Market in 2009 account for 55.3% of the Group's total LCD TV sales volume this year compared to 35.0% last year, indicating the PRC Market remained the main driver of the Group's business growth in the year.

The Group launched an Internet TV lineup including P10、C10、X10、E9、F19、S10 and V10 models and LED back-light TV in the PRC Market during the fourth quarter of 2009. Both have received enthusiastic responses from the market. As a result, Internet TV sales volume became a significant part of the total LCD TV sales volume in the PRC Market and contributed to the Group's income.

Overseas Market

European Markets

The Group's LCD TV sales volume in Western Europe doubled compared with last year, driven mainly by successful marketing of Internet TV in France and continuous sales growth of the TCL brand LCD TVs. Meanwhile, sales in many Eastern European countries, such as Poland and Norway, recorded satisfactory growth. In 2009, total sales volume of LCD TVs in European Markets increased by 77.5% over the previous year, attributable to the growing popularity of Digital Video Broadcasting – Terrestrial ("DVB-T") (MPEG-4) technology in this region. The Group continued to implement cost control measures and exercised stringent risk control while striving for business growth.

North American Markets

Despite North American economy was slowly recovering, high unemployment rate and flat consumer personal expenditures contributed to a challenging environment for the Group's operations in the region. During the year, however, sales to major retail chains continued to increase with the Group's enhanced marketing efforts and its brand power. Despite supply shortages of 32", 40" and 42" LCD TV panels in the second and third quarters, LCD TV sales volume in 2009 still advanced by 58.4% over the previous year. The Group's 32" LCD TV production lines in Mexico were relocated to Huizhou, the PRC so as to enhance the efficiency of the supply chain and to improve product quality. Moreover, manufacturing costs can be reduced, offsetting the impact of rising panel costs on profit margin. Execution of after-sales support service was transferred to a leading American after-sales solutions provider. The move not only optimized the delivery of these services and lowered costs, but also raised customers' satisfaction levels.

Emerging Markets

In order to promote its brand image, the Group has set up flagship stores and image shops in key areas of the Emerging Markets. It participated in the "Road of Asia" marketing campaign across 16 countries and regions to increase its brand and product awareness. Through an online torch relay program and sponsorship of major sporting events, the Group successfully generated greater exposure of its brand and adopted sports marketing strategies which helped boost sales. During the review period, LCD TV sales volume recorded a phenomenal growth rate of 316.5% over the previous year. CRT TV business also achieved healthy growth and maintained within the top three position in the CRT TV market (DisplaySearch Data). Gross margin increased to 12.3% from 11.5% in the previous year due to supply chain optimization and vigorous cost control measures.

Strategic OEM

The Group dedicated itself to providing Strategic OEM customers with competitively priced and highly vertically integrated product supply solutions and to actively develop new customers. In addition, to meet rigid energy-savings requirements for appliances in different regions, the Group has adopted the Energy Using Products ("EuP") Code and Electronic Industry Code of Conduct ("EICC"). Further, it continued to optimize its supply chain and streamline production in order to improve product quality and lower manufacturing costs.

AV Products

During the year under review, both sales volume and turnover of the AV business hit record highs. The Group enhanced R&D efforts on AV products, which resulted in making a significant breakthrough in its technology and design. Sales volume of AV products increased 26.0% to 21.29 million sets from 16.89 million sets in the previous year and turnover increased 34.3%. The Group's AV business unit introduced a total of 408 AV product models during the year, including DVD, PDVD, BD and AUDIO. According to Techno Systems Research Co., Ltd., sales volume of the Group's DVD products has remained the highest in the world since 2007. Furthermore, the operation efficiency of AV business unit had been significantly enhanced. Operating profit for AV Products jumped 76.1% and became another major contributor to the Group's overall business.

R&D

As a leading TV manufacturer in the PRC, the Group has relentlessly dedicated resources to research and development and has striven hard to improve the design, features and technology of its products to meet customers' needs. At the same time, it established an in-depth cooperation and carried out joint design concept with major parts suppliers to improve the efficiency in product development and to reduce the product

development cycle. The core competencies of its product development and R&D capabilities are best exemplified by the launch of DVB-T high-definition TV in Europe, the introduction of products in North America complying with CEE2.0 energy specifications, the overwhelming response to Internet TV in the PRC Market and the introduction of 3D TVs which does not require special glasses to enjoy 3D effects.

Outlook

Although uncertainty still pervades the global TV industry, opportunities lie ahead in tandem with challenges. The gradually recovering global economy and the replacement cycle in the PRC TV Market create a golden growth age for TV manufacturers. Moreover, the PRC government will step up its efforts on the "Household Appliances Subsidy Scheme" which will accelerate sales growth of high-end TV products and become a catalyst for the Group's TV sales growth. Meanwhile, supporting policies like the "Home Appliances Replacement Scheme" and "Promotion of Energy Efficient Appliances" will accelerate the transformation towards LCD TVs and boost demand in the first and second tier cities. The PRC government plans to connect the telecommunications network, broadcasting network and the Internet before 2015 which will create ample business opportunities for the TV industry. With the Group's leading position in the Internet TV sector, the Group is set to retain its prominent position in the market.

The Group will focus on enhancing its competitiveness through highly efficient operation. Additionally, the Group will also strives to seek improvements in its marketing strategies, channels, production capacity, products and costs with an aim to enhance its operating results and create greater value for its shareholders. In addition, the Group will also enhance the integration of LCD, LED supply chain and LCD module technics. The new LCD TV Integration Plant had commenced operation in September 2009. The Group can expand production capacity, lower costs, increase efficiency and enhance core competitiveness through vertical integration. The Group will also strengthen its efforts in LED TVs and 3D products and continue to launch innovative products that meet consumers' demand.

In the PRC Market, the Group will leverage its brand power and channel advantages to further enhance products differentiation and industry competitiveness. Moreover, the Group will continue to solidify its leading position in the PRC Market amid the golden growth age of the TV replacement cycle. Meanwhile, with its "TCL" and "ROWA" dual brand advantages, the Group is well positioned to seize business opportunities with mainstream products including Internet TVs and LED TVs.

While strengthening its business foundation in the PRC Market, the Group is taking initiatives to further enhance its cost structure and efficiency in overseas markets with the target to maintain a stable business growth in long term.

In European Market, the Group will strengthen its efforts in high value-added products including LED TVs and fully exploit its local resources from overseas factories. The Group will allocate resources to important markets through its product and regional focused marketing strategies and target to achieve breakthroughs in sales and TCL brand coverage in these markets. The Group will adopt prudent business development plan and launch a new branding strategy in North American Markets. The Group will also diversify its distribution channels to lower costs and increase product competitiveness. In Emerging Markets, the Group will lower business risks through diversified product mix and sales models including channels, original equipment manufacturers (OEM) and agencies. The Group will also continue its business transition from CRT TVs to LCD TVs with its CRT TV market leadership in the Emerging Markets. Furthermore, in order to cater to the market trend in the Emerging Markets, the Group will focus on marketing smaller sized LCD TVs to exploit the customer base. Meanwhile, it will take advantage of opportunities arising from the "2010 Asian Games" and "The World Cup" to generate more sales in South Eastern Asia, Africa and Latin America.

For AV products, the Group will put more resources on the development of blue ray and portable products to meet market needs through a diversified product mix.

Looking ahead, the Group will pursue a proactive approach to its business development. While staying alert to changes in market conditions, it will strive hard to maintain its leading edge in R&D, enhance supply chain management and optimise the distribution network. The Group will create greater value and long-term returns for shareholders by further enhancing its competitive advantages.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

Please refer to note 28 to the financial statements.

Liquidity and Financial Resources

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

The cash and bank balance as at the year end amounted to HK$2,078,724,000, of which 5.8% was maintained in Hong Kong dollars, 40.2% in US dollars, 44.5% in Renminbi, 2.8% in Euro and 6.7% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2008 and there was no asset held under finance lease at the year end.

At the year end, the Group's gearing ratio was 2.6% which is calculated based on the Group's net borrowing of approximately HK$94,248,000 (calculated as total interest-bearing borrowings less pledged deposits and cash and bank balances) and the equity attributable to owners of the parent of approximately HK$3,620,679,000. The maturity profile of the borrowings is from one to five years.

Pledge of Assets

Please refer to notes 25 and 31 to the financial statements.

Capital Commitments and Contingent Liabilities

At the end of the reporting period, the Group had the following capital commitments:

	2009 **HK$'000**	2008 HK$'000
Contracted, but not provided for	**89,172**	33,083
Authorised, but not contracted for	**275,631**	4,299
	364,803	37,382

In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe SAS ("TTE Europe", a subsidiary of the group which had been deconsolidated in 2007) against the Company, TTE Europe and TCL Belgium S.A. (an indirect wholly-owned subsidiary of the Company), for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro 8.7 million (equivalent to approximately HK$96.7 million). During the latest hearing, the former employees had failed to disclose any document in support of their claims. The hearing was postponed to 1 July 2010.

The directors, based on the advice from the Group's legal counsels, believe that the Group has valid defence against the Claims and, accordingly, has not provided for any liability arising from the Claims.

Foreign Exchange Exposure

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

It is the Group's policy to centralise foreign currency management to monitor the Company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

The Group had a total of 31,063 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and the Company's performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 26,682,222 shares remained outstanding at the end of the reporting year.

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

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LI Dongsheng

Mr. LI Dongsheng

aged 52, is the founder and Chairman of the Company. He is also the Chairman, CEO and one of the founders of TCL Corporation ("TCL Corporation" is the ultimate controlling shareholder of the Company). TCL has become one of the leading global consumer electronics enterprises based in China, since the acquisition of Thomson 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.

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, he received "Deloitte prize entrepreneurs"; honored as "Economic Figure" of China's reform and opening up 30 years; a New York based brands evaluation institute awarded him "the founder of the brand" in the 30 years of China's reform and opening up; 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

Mr. YU Guanghui

Mr. YU Guanghui

aged 41, is currently the CEO and an Executive Director of the Company, and a Senior Vice President of TCL Corporation. Mr. Yu joined TCL in 1993. He had held the positions of Engineer of TCL Huizhou Shouhua Science Park, Manager Assistant of LG Electronics (Huizhou), Deputy General Manager of TCL King Electrical Appliances (Huizhou) Co. Ltd, Deputy General Manager of TCL Electronics (HK) Co., Ltd., General Manager of TCL Overseas Holdings Co., Ltd., Vice President of Electronics Business Unit and Overseas Business Unit of the Company, President of TTE Strategic-OEM Business Unit, General Manager of AV Business Unit etc, General Manager of TCL Home Networking Unit and President of the Company. Mr. Yu has rich management experience in material procurement, manufacturing, product management, business development and cooperation with world class companies. He was one of the founders of TCL's early Color TV production base. Mr. Yu graduated from the Shanxi Normal University with a Master's degree in Physics, and holds a MBA degree from Peking University and an EMBA degree from Cheung Kong Graduate School of Business.

Mr. LEONG Yue Wing

Mr. LEONG Yue Wing

aged 57, is an Executive Director and a Senior Consultant of the Company. Mr. Leong was previously CEO of the Company and was responsible for the overall management of the Company including strategy, business development and operations. Prior to joining the Company, Mr. Leong was associated with Royal Philips Electronics since 1978 and retired in April 2007 as Executive Vice President – Philips Consumer Electronics. Mr. Leong has extensive management experience in the production and sales of audio-visual and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets. Mr. Leong has a Bachelor's degree in Mechanical Engineering and a MBA from the University of Singapore (currently National University of Singapore).

Mr. SHI Wanwen

Mr. SHI Wanwen

aged 43, is an Executive Director of the Company and a Senior Vice President of TCL Corporation. Mr. Shi was previously the Group's Chief Operating Officer and General Manager of the Emerging Market Business Center. Mr. Shi holds a Bachelor's degree in Wireless Technology from the South China University of Technology.

Mr. HUANG Xubin

aged 44, is an Executive Director of the Company. He is also a Vice President and Finance Controller of TCL Corporation. Mr. Huang joined TCL in March 2001 and served as an Officer and 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. Before joining TCL, Mr. Huang served as a Clerk of Investment Institute, Deputy General Manager of the Credit Card Division, Deputy Manager and Manager of Credit Division of China Construction Bank, Guangdong Branch. He was also the Deputy Manager and Manager of Fund Management Division and Securities Division of Guotai Securities Co. Ltd., Guangdong Branch and Senior Manager of Guangzhou Office of China Cinda Asset Management Corporation. Mr. Huang graduated from Hunan College of Finance and Economics and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, PRC.

Mr. HUANG Xubin

Ms. XU Fang

aged 47, is an Executive Director of the Company and has been appointed as a non-executive director of TCL Communication Technology Holdings Limited (a subsidiary of TCL Corporation) with effect from 15 July 2009. She joined TCL Institute of Training of TCL Corporation as the Dean in February 2004. She then became the Deputy Dean of TCL Institute of Leadership Development in February 2006 and the Dean in April 2007. Ms. Xu has been the Human Resources Director and General Manager of the Human Resources Management Centre of TCL Corporation since September 2007. Ms. Xu 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

NON-EXECUTIVE DIRECTOR


Mr. Albert Thomas DA ROSA, Junior

Mr. Albert Thomas DA ROSA, Junior

aged 56, is a Non-executive Director of the Company. He is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is a fellow of the Chartered Institute of Arbitrators and the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute and the Society of Registered Financial Planners, and also an Accredited Mediator of Centre for Effective Dispute (CEDR). He graduated with a Bachelor's Degree in Laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also a non-executive director and the company secretary of certain other companies listed on the Stock Exchange of Hong Kong Limited. He also serves as Chairman of the Appeal Tribunal (Building) Panel, Deputy Convenor and member of the Solicitors Disciplinary Tribunal Panel, and member of the Panel of the Board of Review (Inland Revenue) respectively. He also served as member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission from February 2003 to March 2009.

Mr. da Rosa had been a non-executive director of Innovative International (Holdings) Limited ("Innovative" subsequently renamed as Carico (Holdings) Limited), a company incorporated in Bermuda and listed on the Stock Exchange, until his retirement at the conclusion of its annual general meeting held on 3 September 2001. Innovative was then an investment holding company and its subsidiaries were principally engaged in the design, manufacturing and marketing of antennae and car-related consumer products as well as strategic development and investment. Innovative entered into a debt restructuring agreement in July 2001 for an amount of debt of approximately HK$660 million. Receivers and managers of all the properties and assets of Innovative were appointed in October 2001 pursuant to the terms of composite guarantee and debenture granted to its secured creditors. Thereafter, Innovative entered into schemes of arrangement for restructuring in both Hong Kong and Bermuda. The restructuring was completed on 20 December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Guliang

Mr. TANG Guliang

aged 47, is an Independent Non-executive Director of the Company. He is a professor at University of International Business and Economics, School of Business. Mr. Tang holds directorships in several listed companies in the PRC. He is also a certified public accountant in the PRC and a Director of the Accounting Society of China.

Mr. Robert Maarten WESTERHOF

Mr. Robert Maarten WESTERHOF

aged 66, is an Independent Non-executive Director of the Company. He has over thirty years' experience in the electronics industry. Mr. Westerhof has held senior management positions in the Computer, Telecommunications and Medical Systems divisions of Philips, his last positions were CEO Philips Asia and CEO Philips North America. After his retirement from Philips he became the President of the European top soccer team PSV Eindhoven (a voluntary job). He is a Non-executive Director of AND Technologies N.V., a global leading provider of navigation solutions and digital maps which listed on the Amsterdam Stock Exchange. He serves as the Chairman of the Supervisory Board of Nucletron, a worldwide medical treatment company based in Netherlands. He is also a member of the Supervisory Board of Teleplan, a hardware services provider listed on the Frankfurt Stock Exchange, a member of the Advisory Board of Brand Loyalty, a consultancy firm in the area of consumer loyalty programs based in the Netherlands, and a member of the Advisory Board of VKA, an IT strategy company based in the Netherlands. Mr. Westerhof holds a Master's degree in Business Administration at the Erasmus University of Rotterdam. He is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

Ms. WU Shihong

Ms. WU Shihong

aged 53, is an Independent Non-executive Director of the Company. She has extensive experience in the information technology industry. Ms. Wu is currently the Chairman of the Board and President of Shanghai Blackspace Information Tech. Co. Ltd. She joined IBM China in 1985 and she was a General Manager, Channel Management of IBM China from May 1997 to February 1998. She then became a General Manager of Microsoft China Co. Ltd. until August 1999. From 1999 to 2002, Ms. Wu was a Vice President of TCL Corporation, and General Manager of TCL Information Technology Industrial (Group) Co. Ltd., a wholly owned subsidiary of the Company. Since January 2002, she has been studying in the area of philanthropy. Ms. Wu was elected by the "Fortune" magazine as one of the "Most Powerful Business Women in the World" in year 2001 (No. 27) and year 2002 (No. 24).

SENIOR MANAGEMENT

Mr. HAN Qing

aged 38, is currently the Senior Vice President and General Manager of China Business Center of the Company. He is also the Vice President of TCL Corporation. Mr. Han joined TCL in 1994. He had held the positions of Chief Representative of Shenyang Office of TCL International Electronics (Huizhou) Co., Ltd., Manager of Planning Department of Beijing Branch of TCL Electrical Appliances Sales Co. Ltd., Department Chief of Northern China Regional Management Center of TCL Electrical Appliances Sales Co. Ltd., Manager of Qinhuangdao Sales Branch of TCL Electrical Appliances Sales Co. Ltd., Deputy General Manager of Beijing Branch of TCL Electrical Appliances Sales Co. Ltd., General Manager of Jinan Branch of TCL Electrical Appliances Sales Co. Ltd., and Sales Director/Deputy General Manager of TCL Electrical Appliances Sales Co. Ltd., etc. Mr. Han has rich experience in marketing and sales management. Mr. Han graduated from Jilin Institute of Optics & Mechanics (the predecessor of Changchun University of Technology) and holds Master's degrees in Management and Economics.

Mr. YUAN Yi

aged 43, is currently the Chief Financial Officer ("CFO") of the Company. Mr. Yuan joined TCL in 1997. He had been Chief Cost Accountant of TCL King Electrical Appliances (Huizhou) Co. Ltd., Finance Manager of Inner Mongolia TCL King Electrical Appliance Co., Ltd., Finance Manager of TCL King Electrical Appliances (Huizhou) Co., Ltd., Assistant to General Manager of Finance Center of the Company, Assistant to Senior Vice President of Finance Management Center of TCL Corporation, and Deputy General Manager of Finance Management Center of TCL Corporation, etc. Mr. Yuan has extensive experience in financial management. Mr. Yuan graduated from Hubei University.

Mr. CHEN Wu

aged 38, is currently the Senior Vice President, General Manager of Business & Supply Chain Management Center and General Manager of CRT Business Unit of the Company. Mr. Chen joined TCL in 1993. He had held the positions of Assistant to Manager of Shouhua Electronics Corporation, Assistant to Manager of LG Electronics (China) Co. Ltd., Manager of TV Business Unit of the Company, Deputy General Manager of TCL Communication Equipment Co., Ltd., General Manager of Overseas Business Unit of TCL Corporation, Vice President of TTE' s North America Business Center and Europe Business Center, and General Manager of Global Operation Center of the Company, etc. He has extensive experience in the industrial sector. Mr. Chen graduated from Xi'an Petroleum University with a Bachelor degree in Chemical Equipment and Mechanics.

Mr. SONG Yonghong

aged 42, is currently the Senior Vice President and General Manager of Global Product Center of the Company. Mr. Song joined TCL in August 2003. He had held the positions of Deputy General Manager of Dongguan Jin-zheng Company, Deputy General Manager of Shenzhen Qinghua Tongfang Company, Deputy General Manager/Institute Director of AV Business Unit, Executive Deputy General Manager of AV Business Center of strategic-OEM Business Unit, Deputy General Manager/General Manager of Home Network Business Unit of the Company. Mr. Song has extensive experiences in the consumer electronics industry. Mr. Song graduated from Shannxi Normal University with a Bachelor degree in Physics.

Mr. WONG Kai Sing

aged 60, is currently the Senior Vice President and General Manager of Home Network Business Unit of the Company. Mr. Wong joined the Company in April 2008. He had held the positions of production line manager, Chief Engineer, Production Manager and Project Manager in TV plant of Philips in Singapore, General Manager of AV plant of Philips Consumer Electronics (Singapore), Senior Director of Project Management and Planning of TV Business of Philips Consumer Electronics, Senior Director of Global Manufacturing Operations of DVD and Audio System Business Unit of Philips Consumer Electronics, President of Project Management and Planning of Home Entertainment Business Unit of Philips Consumer Electronics, and Vice President and General Manager of AV Business Group of Philips Consumer Electronics, etc. Mr. Wong has rich experience in operations management, especially in manufacturing management. Mr. Wong graduated from University of Singapore with a Bachelor degree in Mechanics.

Mr. Didier JUIN

aged 52, is currently the Senior Vice President and General Manager of Europe Business Center of the Company. Mr. Juin joined the Company in March 2008. He had held the positions of Product Manager of Philips TV in Europe and Japan, Senior Manager of Product Strategy and Marketing of Philips Consumer Electronics, General Sourcing Manager in Asia-Pacific Region of Philips Consumer Electronics, General Manager of DVD Writer & New Product Business of Philips Consumer Electronics, and Chief Supply Officer of Philips Consumer Electronics, etc. Mr. Juin has over 25 years of experience in consumer electronics, including 10 years in Asia-Pacific region. He has a strong background in procurement, product planning and business management. Mr. Juin graduated from University of Le Havre with a Master Degree in International Business Management.

Mr. Richard DINSMORE

aged 51, is currently the Vice President and Vice President of North American Business Center of the Company. Mr. Dinsmore joined the Company in 2005. He had worked for Thomson since 1987 and his experience includes the management of industrial design, product and brand management, marketing, and aftersales service management. He has 20 years of experience in consumer electronics, and he has a proven track record in leading international teams. Mr. Dinsmore holds a Bachelor degree from the University of Cincinnati and has completed post graduate studies at Syracuse University (ESF), Lemoyne College and University of Michigan.

Mr. HAO Yi

aged 36, is currently the Vice President and General Manager of Emerging Market Business Center of the Company. Mr. Hao joined TCL in March 2004. He had held the positions of Electronic Commerce Manager of Toronto EVANS Ford Car sales company, Manager of International Market Department of Beijing Yaxing Tengfei Software Co., Ltd., Assistant to President of Beijing Hanwawa Software Technology Co., Ltd., Assistant to Board Chairman of TCL Corporation. He has rich experiences in international business. Mr. Hao graduated from York University, Toronto with a bachelor degree in Economics, and also holds a degree of EMBA from Cheung Kong Graduate School of Business

Mr. CHEN Wei Dong

aged 41, is currently the Vice President of the Company, General Manager and Executive Chairman of the Board of Guangzhou Digital Rowa Technology Co., Ltd (a subsidiary of the Company). Mr. Chen joined TCL in 1996. He had held the positions of Sales Representative/Office Manager/Deputy General Manager/General Manager of Lanzhou Branch of TCL Electrical Appliances Sales Co Ltd., Director of Regional Management Center of North-East China of TCL Electrical Appliances Sales Co Ltd., General Manager of Regional Management Center of Northern China of TCL Electrical Appliances Sales Co Ltd., General Manager of Huizhou Management Center of TCL Electrical Appliances Sales Co Ltd., Deputy General Manager/General Manager of TCL Electrical Appliances Sales Co. Ltd., General Manager of Speed Distribution Platform Co. Ltd, Vice President of TTE, Deputy General Manager, General Manager of Emerging Markets Business Center of the Company, etc. He has rich experience in sales management. Mr. Chen graduated from Northwest Normal University with a Bachelor degree in Corporate Management.

Mr. ZHANG Shanshui

aged 44, is currently the Vice President and General Manager of Global Industrial Center of the Company. Mr. Zhang joined TCL in 1996. He had held the positions of Assistant to Manager of TCL King Audiovisual Co., Ltd., Manager of PE Department, Ltd., Director of R&D Institute, Deputy General Manager/General Manager of Industrial Center, General Manager of Sourcing Center of TCL King Electronic (Shenzhen) Co., General Manager of AV Business Unit of TCL Corporation, Deputy General Manager/General Manager of Industrial Center of Multimedia Business Unit of TCL Corporation, Executive Deputy General Manager of TTE Global Industrial Center, Vice President of TTE Strategic-OEM Profit Center, Vice President of Strategic-OEM Business Unit of TCL Corporation and General Manager of TV Business Center, Vice President of TTE Global Operation Center and Deputy General Manager/General Manager of China Industrial Center, General Manager of Total Quality Management, Deputy General Manager of TCL White Electronic Appliances Business Unit, Deputy General Manager of Global Industrial Center of the Company, etc. He has extensive experiences in Industrial Management. Mr. Zhang graduated from National University of Defense Technology with a Bachelor degree in Automatism Testing Instrument.

Ms. LI Jin Mei

aged 40, is currently the Vice President and Human Resource Director of the Company. Ms. Li joined TCL in 1993. She had held the positions of Chief of Overseas Development and Secretary of President Office of TCL Corporation, Chief Representative of TCL Beijing Office and Deputy Director of Public Relations Department of TCL Corporation, Deputy General Manager of TCL International Electronics (Huizhou) Co., Ltd, Human Resources Director of Electrical Appliance Business Unit of TCL Corporation, Human Resources Director/Vice President of TCL Communications Technology Holdings Co., Ltd, etc. She has rich experience in various sectors and fields such as corporate management, human resources management and cross-culture management. Ms. Li graduated from Peking University with a Master Degree in Corporation Management.

Mr. SIN Man Lung

aged 36, is currently the Financial Controller of the Company. Mr. Sin joined the Company in 2005. He has more than 10 years auditing, finance and accounting experience in multi-national and listed companies. Mr. Sin is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the City University of Hong Kong with a Bachelor's degree in Accountancy.

Mr. LEE Kheng Hock

(Resigned on 1 February 2010), aged 56, joined the Company in November 2007. He was a Vice President and General Manager of Strategic Procurement and Supply Chain Management of the Company. He had held the positions of Sourcing Assistant of Philips Electronics Singapore, Material Manager/Senior Procurement Officer/Material Coordinator of ASTEC International (Singapore), Managing Director/Vice President of Asia Supply Chain Operations/Director of Supply Chain Management/Director of Asia International Sourcing/Director of Material/Manager of Supply Chain Management/Manager of International Sourcing in Compaq Asia (Singapore), Director of Material in Asia-Pacific Region of Kulicke & Soffa Semiconductor (Singapore), Vice President/Supply Chain Vice President of Philips Consumer Electronics (Singapore). He has extensive experience in global procurement and supply chain sectors. Mr. Lee graduated from Singapore Institute of Management and Singapore Polytechnic, and holds a Bachelor's degree in Management Science and Chemistry Engineering. He also holds a MBA degree from University of Strathclyde, UK.

Mr. YAN Fei

(Resigned on 1 February 2010) aged 47, joined TCL in 2004. Mr. Yan was a Vice President and General Manager of Flat Panel Display Business Unit of the Company, Deputy General Manager/Deputy President of TTE Strategic-OEM Business Unit, Vice President/President/General Manager of Europe Business Center of the Company. He had held the positions of various technical and management positions in multinational companies such as Schlumberger, Saint-Gobain and Sagem, and had also been assistant professor of Louvain University. Mr. Yan has extensive cross-culture management experience in manufacturing, electronics and high-tech sector. He holds a Bachelor's degree in Engineering from Northwest Polytechnic University of China, a Master's degree in Engineering and a Ph.D degree in Applied Sciences from Louvain University, Belgium.

Mr. Etienne DUCROT

(Resigned on 1 February 2010) aged 50, joined the Company in January 2008. Mr. Ducrot was Chief Technology Officer of the Company. He had held the positions of Chief of Philips Consumer Electronics (Dreux- France), Manager/ Director of Business Development, Manager and Senior Director of Basic TV Global Business Development of Philips Consumer Electronics (Singapore), General Manager and Vice President of Digital Mainstream TV of Philips Consumer Electronics (Singapore), General Manager and Vice President of Mainstream Flat Panel Display Business of Philips Consumer Electronics (Singapore), Manager and Vice President of Technology and Development of Entertainment Solutions Business Group of Philips Consumer Electronics (Singapore), etc. Mr. Ducrot has over 20 years of rich experience in consumer electronics, semiconductor and telecommunication sectors. He has a Master's degree in Electronics and Automation from ICN Nancy, France and a Master's degree in Engineering Sciences from Ecole Superieure d'Electricite (ESE), France.

Mr. CHEN Xiaochun

(Resigned on 1 November 2009), aged 42, joined TCL in 2002. Mr. Chen was a Vice President and General Manager of Global R&D Center of the Company. He had held the positions of Software Engineer of Changzhou Computers Factory, General Manager of R&D Department of Changzhou Boda Electronics Corporation, Product Engineer of Philips Holland, Integration Chief of Philips Singapore, Senior software engineer/Director of R&D Institute/Deputy General Manager of R&D Center of the Company, etc. Mr. Chen has over 20 years of extensive experience in technical and R&D area. He graduated from China Southeast University with a Bachelor degree in Mathematics.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman)

Mr. YU Guanghui (appointed as executive director on 17 February 2009 and became the CEO on 1 October 2009)

Mr. LEONG Yue Wing (ceased to be the CEO on 30 September 2009)

Mr. SHI Wanwen

Mr. HUANG Xubin (appointed on 1 January 2009)

Ms. XU Fang (appointed on 24 July 2009)

Mr. YUAN Bing (resigned on 1 January 2009)

Ms. LU Zhongli (resigned on 17 February 2009)

Mr. WANG Kangping (resigned on 24 July 2009)

Non-Executive Director

Mr. Albert Thomas DA ROSA, Junior

Independent Non-Executive Directors

Mr. TANG Guliang

Mr. Robert Maarten WESTERHOF

Ms. WU Shihong

COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

AUDITOR

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

LEGAL ADVISOR

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

PRINCIPAL REGISTRAR

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

BRANCH REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL OFFICE

13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KYI-1104
Cayman Islands

INVESTOR AND MEDIA RELATIONS

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

Corporate Governance Report

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the multimedia industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In April 2005, the Board adopted the code provisions (the "Code Provisions") of the "Code on Corporate Governance Practices" (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Throughout the year ended 31 December 2009, the Group complied fully with the Code.

A. DIRECTORS

A1: The Board

The Board of Directors, led by the chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. Some of the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend.

During 2009, the Board held 4 regular meetings at about quarterly intervals and 7 additional meetings (6 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:

	Attendance		
	Regular Board Meetings	Special Board Meetings concerning special matters requiring the Board's decisions	Special Board Meetings concerning operational matters only
Executive Directors			
Mr. LI Dongsheng (Chairman)	1/4	5/6	0/1
Mr. YU Guanghui (appointed as executive director on 17 February 2009 and became the CEO on 1 October 2009)	4/4	3/5	0/1
Mr. LEONG Yue Wing (ceased to be the CEO on 30 September 2009)	4/4	5/6	1/1
Mr. SHI Wanwen	2/4	3/6	0/1
Mr. HUANG Xubin (appointed on 1 January 2009)	2/4	5/6	0/1
Ms. XU Fang (appointed on 24 July 2009)	1/2	1/1	0/1
Mr. YUAN Bing (resigned on 1 January 2009)	0/0	0/0	0/0
Ms. LU Zhongli (resigned on 17 February 2009)	0/0	0/1	N/A
Mr. WANG Kangping (resigned on 24 July 2009)	1/1	4/6	N/A
Non-Executive Director			
Mr. Albert Thomas DA ROSA, Junior	4/4	5/6	N/A
Independent Non-Executive Directors			
Mr. TANG Guliang	3/4	5/6	N/A
Mr. Robert Maarten WESTERHOF	4/4	6/6	N/A
Ms. WU Shihong	4/4	4/6	N/A

A2: Chairman and Chief Executive Officer

The position of Chairman is held by Mr. LI Dongsheng. The position of CEO was held by Mr. LEONG Yue Wing until 30 September 2009 and has been thereafter taken up by Mr. YU Guanghui (i.e. since 1 October 2009). The segregation of duties and responsibilities between the Chairman and the CEO has been clearly established. A clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Group is also ensured.

A3: Board Composition

The Board currently comprises 10 directors, including 6 executive directors, 1 non-executive director ("NED") and 3 independent non-executive directors ("INEDs"). The composition of the board has undergone the following changes since 31 December 2008:

1. Mr. YUAN Bing resigned as an executive director on 1 January 2009;
2. Ms. LU Zhongli resigned as an executive director on 17 February 2009;
3. Mr. WANG Kangping resigned as an executive director on 24 July 2009;
4. Mr. HUANG Xubin has become an executive director with effect from 1 January 2009;
5. Mr. YU Guanghui has become an executive director with effect from 17 February 2009; and
6. Ms. XU Fang has become an executive director with effect from 24 July 2009.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors is related to each other.

The non-executive directors, more than half of whom are independent, play an important role on the Board. Accounting for about 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 a written confirmation from each INED of his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A4: Appointment, Re-election and Removal

Nomination of Directors

The Board has not established a Nomination Committee, and the selection and approval of new directors is undertaken by the Board. 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 first general meeting after the 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
Mr. LI Dongsheng (Chairman)	2/2
Mr. YU Guanghui (appointed as executive director on 17 February 2009 and became the CEO on 1 October 2009)	1/1
Mr. LEONG Yue Wing (ceased to be the CEO on 30 September 2009)	1/2
Mr. SHI Wanwen	1/2
Mr. HUANG Xubin (appointed on 1 January 2009)	2/2
Ms. XU Fang (appointed on 24 July 2009)	0/0
Mr. YUAN Bing (resigned on 1 January 2009)	0/0
Ms. LU Zhongli (resigned on 17 February 2009)	0/1
Mr. WANG Kangping (resigned on 24 July 2009)	1/2
Mr. Albert Thomas DA ROSA, Junior	2/2
Mr. TANG Guliang	1/2
Mr. Robert Maarten WESTERHOF	2/2
Ms. WU Shihong	2/2

During the meeting, the Board considered the nomination and appointment of Mr. YU Guanghui and Ms. XU Fang as executive directors whose term were effective from 17 February 2009 and 24 July 2009 respectively.

The Board adopted a "Procedure and Criteria for Nomination of Directors" in 2005, the details of which are set out below:

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 for All Directors

   (a) Character and integrity

   (b) The willingness to assume broad 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/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

In the annual general meeting ("AGM") held on 12 May 2009, one-third of the directors (namely Mr. LEONG Yue Wing, Mr. SHI Wanwen, Mr. Albert Thomas DA ROSA, Junior and Mr. TANG Guliang) were subject to retirement by rotation and were re-elected. All the other non-executive directors (namely Mr. Robert Maarten WESTERHOF and Ms. WU Shihong) were elected to hold office for a specific term until the next AGM to be held in 2010.

A5: Responsibilities of Directors

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2009 they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2009 are set out in the section "Report of the Directors" of this Annual Report.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B1: The Level and Make-up of Remuneration and Disclosures

Remuneration of Directors

The Remuneration Committee was established in April 2005 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group'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 is governed by its terms of reference, which are available at the Group's website http://www.tclhk.com.

The Remuneration Committee now consists of 3 members, the majority of whom are INEDs, namely Ms. WU Shihong, who is also the chairman of the Remuneration Committee, Mr. TANG Guliang and Ms. XU Fang (appointed on 3 August 2009 to replace Mr. Albert Thomas DA ROSA, Junior).

4 Remuneration Committee meetings were held on 26 February 2009, 23 March 2009, 7 September 2009 and 29 November 2009 respectively which all the current or then members Ms. WU Shihong, Mr. TANG Guliang, Ms. XU Fang and Mr. Albert Thomas DA ROSA, Junior attended. The work performed during these meetings include the following:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- determination of the amount of bonus to be paid to certain executive directors and senior management; and
- determination of the remuneration packages of the directors, chief financial officer and certain senior management.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and caliber, the Group provides a competitive remuneration package to its executive directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay, long-term incentive plan which includes share option scheme and restricted share award scheme. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company and shares of the Company purchased by trustee under the restricted share award scheme respectively. Please refer to the Company's announcement and circular dated 6 February 2008 and 20 March 2008 respectively for details of the restricted share award scheme. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

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; and
- share options or restricted shares which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or emolument payable to the Directors are set out in details in note 8 to the financial statements.

C. ACCOUNTABILITY AND AUDIT

C1: Financial Reporting

The Board is also 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.

As at 31 December 2009, the Group had net assets of approximately HK$3,712 million, the Group also recorded a profit attributable to owners of the parent of approximately HK$397 million for the year ended 31 December 2009.

The financial statements set out on pages 70 to 167 were prepared on a going concern basis.

C2: Internal Controls

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. The directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal controls. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of the internal control system of the Group.

The Group has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

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 also reviews the internal control report submitted by the Company's internal audit department. 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.

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Group's business. The head of the Company's internal audit department reports to the Audit Committee.

C3: Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises 3 members, namely Mr. TANG Guliang, Mr. HUANG Xubin (appointed on 3 August 2009 to replace Mr. Albert Thomas DA ROSA, Junior) and Ms. WU Shihong. Mr. TANG Guliang is the chairman of the Audit Committee. He is a certified public accountant in the PRC and a professor at the University of International Business and Economics School of Business. The Audit Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

Since the appointment of Mr. HUANG Xubin, an executive Director, to the Audit Committee on 3 August 2009, the requirements under Rule 3.21 of the Listing Rules, which requires the audit committee to comprise non-executive directors only, have not been met by the Company inadvertently. The problem will be resolved by redesignating Mr. HUANG Xubin as a non-executive director.

During year 2009, the Audit Committee met 6 times which all the current or then members Mr. TANG Guliang, Mr. HUANG Xubin, Mr. Albert Thomas DA ROSA, Junior and Ms. WU Shihong attended.

The Audit Committee meetings are normally attended by the Group's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during 2009 included 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 internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2009; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors.

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Audit services	HK$19,612,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$5,903,000

D. DELEGATION BY THE BOARD

D1: 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.

D2: Board Committees

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

E. INVESTOR RELATIONS

The Group actively promotes the investor relations and communication with the investment community. Keeping shareholders and investors informed of our corporate strategies and business developments in a timely manner is one of the key objectives of our investor relations team.

The Group strives to uphold a high level of corporate transparency and provides full support to the investor relations team by involving senior management in close contact and interactive dialogue with research analysts and institutional investors through different channels including meetings, teleconferences, luncheons and plant visits. The Group also keeps investors abreast of its latest corporate information through releasing monthly shipment data of its core products.

In addition to frequent meetings with investors, the Group arranged non-deal road shows in Hong Kong, Shenzhen, Shanghai, Taiwan and Singapore in which more than 200 analysts and fund managers attended with favorable response during the year under review.

Key Investor Relations Events in 2009:

Date		Event
February	•	Extraordinary General Meeting (Connected transaction for disposing of its interests in a subsidiary in Wuxi)
March	•	2008 Annual Results Announcement (Press Conference and Analyst Briefing)
April	•	2009 1st Quarter Results Announcement (Investor & Media Conference Call)
May	•	2009 Annual General Meeting
	•	Plant Visit for Fund Manager, Analysts and Bankers
June	•	Hong Kong Non-deal Roadshow (organized by JP Morgan)
	•	Luncheon with Stock Commentators
July	•	Singapore Non-deal Roadshows (organized by JP Morgan)
	•	Meeting with investors from Association of Securities and Futures, Guangdong
August	•	Hong Kong Non-deal Roadshow (organized by Credit Suisse)
	•	2009 Interim Results Announcement (Press Conference and Analyst Briefing)
	•	Hong Kong Non-deal Roadshow (organized by Nomura)
	•	Hong Kong Non-deal Roadshow (organized by Goldman Sachs)
	•	Plant Visit for Fund Manager, Analysts and Bankers
September	•	Hong Kong Non-deal Roadshow (organized by Credit Suisse)
	•	New LCD TV Integration Plant Opening Ceremony and Plant Visit for Media and Analysts
	•	Investors' conference in Singapore (organized by Credit Suisse)
	•	Singapore Non-deal Roadshows (organized by Standard Chartered/Cazenove)
	•	Taiwan Non-deal Roadshow (organized by UOB Kay Hian)
	•	Plant Visit for Fund Manager, Analysts and Bankers
October	•	2009 3rd Quarter Results Announcement (Investor & Media Conference Call)
	•	Investors' conference in Hong Kong (organized by UBS)
	•	Investors' conference in Hong Kong (organized by Standard Chartered/Cazenove)
November	•	Investors' conference in Shenzhen (organized by Credit Suisse)
	•	Hong Kong Non-deal Roadshow (organized by Samsung Securities)
	•	Group Plant Visit for Fund Manager, Analysts and Bankers
December	•	Hong Kong Non-deal Roadshow (organized by MainFirst Securities)
	•	Hong Kong Non-deal Roadshow (organized by UBS)
	•	Hong Kong Non-deal Roadshow (organized by Citigroup)
	•	Shanghai Non-deal Roadshow (organized by CICC)
	•	Shanghai Non-deal Roadshow (organized by Morgan Stanley)

Going forward, the Group will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Group's website http://www.tclhk.com. Enquiries can also be sent to the board or senior management by contacting the Investor Relations Department via e-mail to hk.ir@tcl.com, or directly through the questions and answers session at shareholder meetings.

Human Resources & Social Responsibility

HUMAN RESOURCES:

The Group's mission in terms of human resources management is "Supporting Corporate Strategies, Enhancing Group Performance, and Assisting Staff Development". During the year 2009, the Group commenced various initiatives in relation to corporate strategies, business strategies and team building, which directly supported its corporate strategic and business development.

1. Basic Information of Human Resources

As of 31 December 2009, there were 31,063 employees in total globally and approximately 9.8% of them are based outside of Mainland China, as indicated below:

Mainland China	28,006	90.2%
Rest of Asia (including Australia)	1,065	3.4%
North America	846	2.7%
Europe	1,146	3.7%

Compared with the corresponding period last year, the Group's efficiency per headcount was increased. At the same time, its experience in international operation and capability in cross-cultural management had further been enhanced.

2. Key Contributions in Human Resources

During the last year, the industry was advancing rapidly while the external market environment had changed dramatically. In complementing with the corporate development strategies and business strategies, the Group actively initiated a number of measures in organizational capabilities, evaluation, incentives, and personnel development:

– Pursuant to the business development plan, the Group carried out a series of structural adjustments with the principles of streamlining and efficiency. The Group restructured its product, supply chain and manufacturing operations, while its finance, legal, information, human resources and administration departments were also re-deployed and re-adjusted in order to address clients' needs and respond to changes in the market in a timely manner.

– Strengthened its performance management through refining its corporate wide performance management tools and setting reasonable goals with the aim of performance improvement, while linking the performance evaluation results of individual employees with the Group's overall performance and departmental performance. The Group also improved its incentive system by clarifying the principles of internal fairness, external competitiveness and performance-orientation.

– Clarified its human resource development concept and framework, gradually improved its personnel evaluation system, started a series of training programs, and centralized the organization of a series of corporate wide management training programs for fresh graduates and new managers to meet the requirements of the individual positions and the Group's strategy for internationalization.

- According to the corporate development strategy, the Group improved its human resources policy and fundamental management system by revising and standardizing its attendance and leave management system in order to provide employees with better personnel services support.

- Continued to promote improvement activities such as "I Can Help" and "I Can Do It" projects to enhance staff members' sense of responsibility and ownership, also promoted various ways of internal communication and media broadcasting, which created good corporate atmosphere and supported the Group's business development.

- Clarified its internal governance structure of corporate human resource management functions, and rationalized division of labour and cooperation relationship among the headquarters and individual business units in terms of core human resources functions.

SOCIAL RESPONSIBILITY

The Group's social responsibility programs continued to expand in 2009, such as taking part in social care-giving campaigns, involving college students in business activities, establishing environmentally sound operations and upholding legal rights of the staff.

The Group has been actively participating in and supporting social care-giving campaigns. From the year 2008, Hua Meng Fund (華萌基金), established by the Chairman of the Group, contributed RMB2.50 million in a 5-year period to a "Candle Award of Rural Teacher" (鄉村教師燭光獎) commend scheme to be carried out in Huizhou, Guangdong Province.

SIFE (Students In Free Enterprise) is an international organization which involves university students in business-related activities. It is committed to developing future business leaders with a sense of social responsibility around the world. It organizes learning activities, provides guidance and encourages students to take the initiative to plan and implement business community service projects with the training plan under the direction of SIFE. The Group donated US$100,000 in 2009 and was deeply involved in related activities of SIFE in China, France, and Russia, building a bridge for the business community and higher education sector while promoting the growth of college students.

Regarding environmental protection, the Group actively promotes the application of the latest power-saving technologies and encourages employees to adopt eco-friendly behaviors internally such as bringing their own cups and using less papers, etc with the aim of enhancing the staff's environmental awareness.

Human Resources & Social Responsibility

Employees are the most valuable asset of an enterprise and "People-oriented" is one of the Group's business philosophies. An enterprise has the responsibility to continuously improve the working and living conditions of its staffs, to meet their legitimate rights and enhance their welfare and benefits, and to provide the platform for professional development. The Group is committed to complying with applicable labour and employment laws, including no forced labour, proper arrangement of working hours, paying staff salaries according to law, no employment of child labour, and elimination of any discrimination. The Group proactively continued to improve its internal employment policy and code of practice on staff relationship according to the new Labour Contract Law. In addition to purchase of various social insurance such as industrial injury, health, unemployment, pension and maternity insurance for all employees, the Group also provided other supplementary insurance and welfare to some of its key staff members, such as business insurance, group pension insurance and housing fund. At the same time, the Group made proper arrangement for working hours so as to protect the rights of its staff to take rest and have holidays/leaves according to law. Minor and women staff who are in three phases (pregnancy, perinatal and breast-feeding) are under special care. According to relevant laws and regulations, neither minor nor women staff in pregnancy and breast-feeding phases can be arranged to work at posts that are poisonous or hazardous, or to work overnight shift.

Going forward, the Group will continue to improve its social responsibility programs in line with its position as a global corporation and industry leader.

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There was no significant change 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 70 to 167.

The Board has declared a final dividend, for the year ended 31 December 2009, of HK 12.00 cents in cash per share.

Subject to approval at the forthcoming annual general meeting, the said final dividend will be payable on or about Thursday, 20 May 2010 to shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on Monday, 10 May 2010.

FIVE YEAR FINANCIAL SUMMARY

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 restated/reclassified as appropriate, is set out on page 168. 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 Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 35 to the financial statements.

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 existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

To reflect the management's confidence in the future development of the Group's business and enhance the earnings per share of the Company, the Company repurchased 19,494,000 shares on the Stock Exchange at an aggregate price of HK$55,373,000 during the year under review. The details of the repurchases of the Company's shares on the Stock Exchange are as follows:

Month/Year	No. of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate cost paid (excluding transaction costs) HK$'000
June 2009	15,454,000	3.08	2.25	42,190
July 2009	4,040,000	3.30	3.09	13,183
	19,494,000			55,373

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and 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$2,898,806,000 standing to credit of its share premium account and HK$738,936,000 standing to the credit of its capital reserve account. As the aforesaid capital reserve represents premium arising on an issue of shares of the Company, the entire amount of HK$738,936,000 standing to the credit of the capital reserve 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$2,777,385,000, and after transfer of the capital reserve as aforesaid, the amount which can be utilised for payment of dividend by the Company in future would become HK$3,516,321,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$843,000.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	20%
– the five largest suppliers combined	47%

Sales

– the largest customer	9%
– the five largest customers combined	29%

None of the directors of the Company, their associates or 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.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. LI Dongsheng
Mr. YU Guanghui (appointment effective from 17 February 2009)
Mr. LEONG Yue Wing
Mr. SHI Wanwen
Mr. HUANG Xubin (appointment effective from 1 January 2009)
Ms. XU Fang (appointment effective from 24 July 2009)
Mr. YUAN Bing (resigned on 1 January 2009)
Ms. LU Zhongli (resigned on 17 February 2009)
Mr. WANG Kangping (resigned on 24 July 2009)

Non-executive director:

Mr. Albert Thomas DA ROSA, Junior

Independent non-executive directors:

Mr. TANG Guliang
Mr. Robert Maarten WESTERHOF
Ms. WU Shihong

In accordance with article 99 of the Company's articles of association and the Corporate Governance Code adopted by the Company, Ms. XU Fang will hold office until the next general meeting of the Company and shall then be eligible for re-election. The Board proposed Ms. Xu to be elected as an executive director of the Company at the forthcoming AGM.

In accordance with article 116 of the Company's articles of association, Mr. LI Dongsheng, Mr. HUANG Xubin, Mr. Robert Maarten WESTERHOF and Ms. WU Shihong will retire by rotation, of which Mr. Westerhof and Ms. Wu will also hold their office until the conclusion of the forthcoming AGM under their respective term of engagement. It is proposed that Mr. Huang will be re-designated as non-executive director before the forthcoming AGM and upon such redesignation, he will also hold office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Mr. Albert Thomas DA ROSA, Junior and Mr. TANG Guliang will hold office until the conclusion of the forthcoming AGM. It is proposed that Mr. LEONG Yue Wing will be re-designated as non-executive director before the forthcoming AGM and upon such redesignation, he will also hold office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Mr. da Rosa being non-executive director and Mr. Tang, Mr. Westerhof and Ms. Wu, all being independent non-executive directors of the Company, if elected, will hold office until the conclusion of the next AGM to be held in 2011. Upon redesignations of Mr. Huang and Mr. Leong as non-executive directors, they, if elected, will also hold office until the conclusion of the next AGM to be held in 2011.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Particulars of the emoluments of the directors and the five highest paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 40 to 51 of this Annual Report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 34 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 26 to 37 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

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

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 were as follows:

(A) Interests in the Company - Long Positions

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%
YU Guanghui	230,946	–	697,662	928,608	0.09%
LEONG Yue Wing	1,594,671	–	1,655,572	3,250,243	0.32%
SHI Wanwen	–	–	784,265	784,265	0.08%
HUANG Xubin	–	–	295,229	295,229	0.03%
XU Fang	–	–	147,210	147,210	0.01%
Albert T. DA ROSA, Jr.	–	–	30,000	30,000	0.003%
TANG Guliang	–	–	30,000	30,000	0.003%
WU Shihong	–	–	30,000	30,000	0.003%
Robert Maarten WESTERHOF	–	–	30,000	30,000	0.003%

(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%
SHI Wanwen	1,712,599	–	–	1,712,599	0.06%

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

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	24,126,120	–	2,651,204	26,777,324	2.49%
YU Guanghui	–	–	60,000	60,000	0.01%
SHI Wanwen	–	–	65,454	65,454	0.01%
HUANG Xubin	–	–	418,954	418,954	0.04%
XU Fang	–	–	81,727	81,727	0.01%

Notes:

1. TCL Corporation ("TCL Corporation"), a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

2. TCL Communication Technology Holdings Limited ("TCL Communication") is a subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2009, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests and short positions of the persons, other than a director or chief executive of the Company, in the 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:

(i) Long positions in shares of the Company:

Shareholders	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	556,399,284 *(Note 1)*	54.989%

Notes:

1. TCL Corporation was deemed to be interested in 556,399,284 shares held by T.C.L. Industries, its direct wholly owned subsidiary, for the purpose of the SFO.

2. The following Directors are directors/employees of TCL Corporation which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

   (a) Mr. LI Dongsheng is the chairman and CEO of TCL Corporation;

   (b) Mr. YU Guanghui is a senior vice president of TCL Corporation;

   (c) Mr. SHI Wanwen is a senior vice president of TCL Corporation;

   (d) Mr. HUANG Xubin is a vice president and financial controller of TCL Corporaiton; and

   (e) Ms. XU Fang is the president of Human Resources Department of TCL Corporation.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The following share options were outstanding under the share option schemes during the year:

Name or category of participant	Number of share options At 1 January 2009	Reclassication	Adjustment⊕	Exercised during the year	Lapsed during the year	At 31 December 2009	Date of grant of share options	Exercise price of share options HK$	Exercise period of share options	Price of Company's shares At grant date # HK$	Price of Company's shares At exercise date HK$
Directors											
Executive directors											
LI Dongsheng	17,990,028	–	(16,191,027)	–	–	1,799,001	4-Jul-07	6.300	Note 1	6.000	N/A
	13,957,543	–	(12,561,787)	–	–	1,395,756	25-Aug-08	2.450	Note 2	2.330	N/A
	31,947,571	–	(28,752,814)	–	–	3,194,757					
YU Guanghui *	–	1,012,451	–	(674,000)	–	338,451	4-Jul-07	6.300	Note 1	6.000	8.01
	–	537,211	–	(178,000)	–	359,211	25-Aug-08	2.450	Note 2	2.330	8.23
	–	1,549,662	–	(852,000)	–	697,662					
LEONG Yue Wing	18,675,714	–	(16,808,142)	(212,000)	–	1,655,572	25-Aug-08	2.450	Note 2	2.330	8.48
SHI Wanwen	8,858,955	–	(7,973,061)	(590,000)	–	295,894	4-Jul-07	6.300	Note 1	6.000	7.49
	7,323,701	–	(6,591,330)	(244,000)	–	488,371	25-Aug-08	2.450	Note 2	2.330	7.49
	16,182,656	–	(14,564,391)	(834,000)	–	784,265					
HUANG Xubin *	–	722,490	(650,241)	–	–	72,249	4-Jul-07	6.300	Note 1	6.000	N/A
	–	2,229,800	(2,006,820)	–	–	222,980	25-Aug-08	2.450	Note 2	2.330	N/A
	–	2,952,290	(2,657,061)	–	–	295,229					
XU Fang *	–	23,600	–	–	–	23,600	4-Jul-07	6.300	Note 1	6.000	N/A
	–	123,610	–	–	–	123,610	25-Aug-08	2.450	Note 2	2.330	N/A
	–	147,210	–	–	–	147,210					
YUAN Bing @	1,820,033	(182,003)	(1,638,030)	–	–	–	4-Jul-07	6.300	Note 1	6.000	N/A
	4,498,050	(449,805)	(4,048,245)	–	–	–	25-Aug-08	2.450	Note 2	2.330	N/A
	6,318,083	(631,808)	(5,686,275)	–	–	–					
LU Zhongli @	1,300,033	(130,002)	(1,170,031)	–	–	–	4-Jul-07	6.300	Note 1	6.000	N/A
	1,552,400	(155,242)	(1,397,158)	–	–	–	25-Aug-08	2.450	Note 2	2.330	N/A
	2,852,433	(285,244)	(2,567,189)	–	–	–					
WANG Kangping @	836,200	(83,620)	(752,580)	–	–	–	25-Aug-08	2.450	Note 2	2.330	N/A
	76,812,657	3,648,490	(71,788,452)	(1,898,000)	–	6,774,695					
Non-Executive directors											
Albert Thomas DA ROSA, Junior	300,000	–	(270,000)	–	–	30,000	25-Aug-08	2.450	Note 2	2.330	N/A
TANG Guliang	300,000	–	(270,000)	–	–	30,000	25-Aug-08	2.450	Note 2	2.330	N/A
Robert Maarten WESTERHOF	300,000	–	(270,000)	–	–	30,000	25-Aug-08	2.450	Note 2	2.330	N/A
WU Shihong	300,000	–	(270,000)	–	–	30,000	25-Aug-08	2.450	Note 2	2.330	N/A
	1,200,000	–	(1,080,000)	–	–	120,000					
Other employees and those who have contributed or may contribute to the Group	192,875,107	(1,446,536)	(171,182,420)	(3,976,538)	(6,722,580)	9,547,033	4-Jul-07	6.300	Note 1	6.000	7.82
	146,736,246	(2,201,954)	(129,044,497)	(3,632,884)	(1,616,417)	10,240,494	25-Aug-08	2.450	Note 2	2.330	5.71
	339,611,353	(3,648,490)	(300,226,917)	(7,609,422)	(8,338,997)	19,787,527					
	417,624,010	–	(373,095,369)	(9,507,422)	(8,338,997)	26,682,222					

* Mr. YU Guanghui, Mr. HUANG Xubin and Ms. XU Fang were appointed as executive directors of the company on 17 February 2009, 1 January 2009 and 24 July 2009, respectively.

@ Mr. YUAN Bing, Ms. LU Zhongli and Mr. WANG Kangping resigned as executive directors of the company on 1 January 2009, 17 February 2009 and 24 July 2009, respectively.

The price of the Company's shares disclosed as at the date of grant of the share options was the Stock Exchange of Hong Kong Limited ("Stock Exchange") closing price on the trading day immediately prior to the date of grant of the options, the respective closing price immediately before the date of grant was adjusted as a result of the share consolidation.

⊕ On 23 January 2009, the share consolidation on the basis that every 10 issued and unissued shares of the Company of HK$0.10 each were consolidated into 1 ordinary share of HK$1.00 ("Consolidated Shares") became effective.

Note 1: One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 2: One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

SHARE AWARD SCHEMES

The Board on 6 February 2008 resolved to adopt the Share Award Scheme (the "Share Award Scheme") pursuant to which existing shares would be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the scheme.

CONNECTED TRANSACTIONS

During the year, the Group entered into a connected transaction and a number of continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Group").

The Group entered into the following connected transaction (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2009:

On 7 January 2009, the Group entered into a framework agreement (the "Disposal Agreement") with Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd., an associate of TCL Corporation, to dispose of its entire interests in TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi"), a 70%-owned subsidiary of the Group, for an aggregate initial consideration of RMB159,000,000 (equivalent to HK$181,065,000) (the "Consideration").

The Consideration was further adjusted to RMB142,761,000 (equivalent to HK$161,916,000) after taking into account the receipts/payments of certain assets/liabilities of TCL Wuxi by the Group before the completion of the Disposal Agreement.

The Disposal Agreement was completed on 26 June 2009.

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2009:

(a) Pursuant to the Framework Agreement dated 10 September 2007 entered into between TTE and TCT Mobile International Limited ("TCT") (formerly known as T&A Mobile Phones International Limited), a wholly owned subsidiary of TCL Communication, which in turn is a subsidiary of TCL Corporation under which TTE and its subsidiaries agrees (i) to procure the materials from TCT, (ii) to manufacture, assemble and/or test mobile phone products, as well as provide services for pre-production and production ramp-up and to deliver the products to TCT and (iii) to sell the products to TCT at the price agreed between the parties in accordance with the terms of the agreement. During the year, the material purchased from TCT amounting to HK$66,000 while the products sold to TCT amounting to HK$3,975,000.

(b) Pursuant to the TCL Trademark License Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20-year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sublicensable and non-transferable license to use certain of its registered trademarks including "TCL" for the manufacture and sale of TV products. During the year, no payment has been made by the Group to TCL Corporation as royalties and HK$82,057,000 was paid by the Group to TCL Corporation as reimbursement of branding advertising costs.

    The caps for the transactions under TCL Trademark License Agreement for the year 2009 had been revised on 25 November 2008.

(c) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 (further extended by the first and second supplemental agreement to 31 December 2011) entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Group for the supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from TCL Group amounting to HK$1,973,000 during the year.

(d) Pursuant to the Master Sourcing (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$946,269,000; (ii) purchased overseas materials from TCL Group amounting to HK$2,231,503,000 during the year.

(e) Pursuant to the Master Supply (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from TCL Group amounting to HK$632,947,000; (ii) sold goods to TCL Group amounting to HK$51,016,000 during the year.

(f) Pursuant to the Financial Services Framework (Renewal) Agreement dated 9 October 2008 entered into among the Company, TCL Corporation and TCL Finance Co., Ltd. ("TCL Finance"), a non-wholly owned subsidiary of TCL Corporation, the Group paid fees and commissions for the Other Financial Services thereunder amounting to HK$392,000 during the year. The maximum outstanding balance of deposits placed by the Group with TCL Finance during the year was HK$791,820,000.

(g) Pursuant to the Master Logistics Service Supply Agreement dated 5 January 2007 (further extended by the supplemental agreement to 31 December 2011) entered into between the Company and Shenzhen Speed Distribution Platform Co., Ltd (the "Speed Distribution"), a wholly owned subsidiary of TCL Corporation, the Group may from time to time request Speed Distribution for provision of certain logistics services. During the year, HK$39,909,000 was paid by the Group to Speed Distribution for all the cost and expenses incurred by Speed Distribution for provision of the logistics services.

(h) Pursuant to the Master Subcontracting (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group paid subcontracting fees amounting to HK$11,659,000 during the year.

(i) Pursuant to the Master Call Centre Services Supply Agreement dated 5 January 2007 (further extended by the supplemental agreement to 31 December 2011) entered into between the Company and TCL Corporation, TCL Corporation has agreed to provide the call centre services to the Group. During the year, HK$18,103,000 was paid by the Group to TCL Corporation for all the cost and expenses incurred by TCL Corporation for provision of the call centre services.

(j) Pursuant to the Loan and Charge Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, a facility amounting to HK$85,198,000 thereunder was utilized by the Group and certain items of property, plant and equipment and prepaid land lease payments of the Group, amounting to HK$88,386,000 and HK$14,264,000 respectively were pledged as security thereunder during the year.

(k) Pursuant to the New Lease Framework (Tenant) Agreement dated 9 October 2008 entered into between the Company as tenant and TCL Corporation as landlord, the Group paid rental, repair and maintenance expenses to TCL Corporation amounting to HK$30,259,000 during the year.

(l) Pursuant to the New Lease Framework (Landlord) Agreement dated 9 October 2008 entered into between TCL King Electronics (Shenzhen) Company Limited ("TCL King Shenzhen", an indirect wholly owned subsidiary of the Company) as landlord and TCL Corporation as tenant, TCL King Shenzhen received rental, repair and maintenance fees from TCL Corporation amounting to HK$1,561,000 during the year.

(m) Pursuant to a lease agreement (as stipulated in the Framework Agreement) dated 26 June 2009 entered into between TCL King Electrical Appliances Wuxi Company Limited ("TCL King Wuxi", an indirect 70% owned subsidiary of the Company) and Wuxi Digital, the Group paid rental and management fee amounting to HK$6,808,000 during the year.

(n) Pursuant to the Master Mainland Supply Agreement dated 19 August 2009 entered into between the Company and TCL Corporation, the Group purchased air-conditioner products from TCL Group amounting to HK$14,172,000 during the year.

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned 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 respective 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) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 40 to 51 in this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2009.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, 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 Company has an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will 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

安 永

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

We have audited the financial statements of TCL Multimedia Technology Holdings Limited set out on pages 70 to 167, which comprise the consolidated and company statements of financial position as at 31 December 2009, and 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
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
10 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
TURNOVER	5	**30,342,550**	25,773,322
Cost of sales		**(25,418,948)**	(21,666,105)
Gross profit		**4,923,602**	4,107,217
Other revenue and gains		**244,569**	197,231
Selling and distribution costs		**(3,261,763)**	(2,823,614)
Administrative expenses		**(897,374)**	(931,362)
Research and development costs		**(222,755)**	(155,716)
Other operating expenses		**(84,133)**	(62,340)
		702,146	331,416
Finance costs (excluding finance costs on convertible bonds)	6	**(127,323)**	(152,593)
Share of profits and losses of:			
Jointly-controlled entities		**(6,507)**	(4,859)
Associates		**3,103**	2,235
		571,419	176,199
Fair value gain on the derivative component of convertible bonds		**–**	374,514
Loss on early redemption of convertible bonds		**–**	(610,883)
Finance costs on convertible bonds	6	**–**	(72,246)
PROFIT/(LOSS) BEFORE TAX	7	**571,419**	(132,416)
Income tax expense	10	**(167,359)**	(119,045)
PROFIT/(LOSS) FOR THE YEAR		**404,060**	(251,461)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange fluctuation reserve:			
Translation of foreign operations		**(44,410)**	194,926
Release upon disposal and liquidation of subsidiaries		**(17,043)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(61,453)**	194,926
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**342,607**	(56,535)

	Notes	2009 HK$'000	2008 HK$'000
Profit/(loss) attributable to:			
Owners of the parent	11	**396,523**	(268,245)
Minority interests		**7,537**	16,784
		404,060	(251,461)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**335,151**	(80,035)
Minority interests		**7,456**	23,500
		342,607	(56,535)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK39.15 cents**	HK(36.15) cents
Diluted		**HK39.13 cents**	HK(36.15) cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,603,372**	1,390,786
Prepaid land lease payments	15	**70,944**	49,977
Deposit paid for the acquisition of prepaid land lease payments		**–**	3,407
Goodwill	16	**119,638**	119,638
Other intangible assets	17	**2,492**	16,988
Interests in jointly-controlled entities	19	**109,772**	116,048
Interests in associates	20	**99,183**	85,834
Available-for-sale investments	21	**1,182**	1,008
Prepaid royalty	22	**–**	82,328
Deferred tax assets	33	**19,504**	17,213
Total non-current assets		**2,026,087**	1,883,227
CURRENT ASSETS			
Inventories	23	**4,917,896**	3,061,568
Trade receivables	24	**4,078,239**	3,946,547
Bills receivable		**822,115**	674,688
Other receivables	26	**832,630**	675,113
Tax recoverable		**13,530**	12,529
Pledged deposits	27	**86,725**	–
Cash and bank balances	27	**2,078,724**	2,157,768
		12,829,859	10,528,213
Non-current assets classified as held for sale	28	**65,215**	205,528
Total current assets		**12,895,074**	10,733,741
CURRENT LIABILITIES			
Trade payables	29	**6,022,703**	4,384,363
Bills payable		**683,076**	820,067
Other payables and accruals	30	**1,784,480**	1,399,208
Interest-bearing bank and other borrowings	31	**1,761,048**	2,153,929
Due to TCL Corporation	25	**129,457**	4,694
Due to T.C.L. Industries	25	**38,146**	117,525
Tax payable		**163,458**	161,124
Provisions	32	**221,796**	128,019
Total current liabilities		**10,804,164**	9,168,929
NET CURRENT ASSETS		**2,090,910**	1,564,812
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,116,997**	3,448,039

	Notes	2009 HK$'000	2008 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,116,997**	3,448,039
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**369,192**	–
Deferred tax liabilities	33	**11,818**	11,572
Pensions and other post-employment benefits	34	**23,522**	23,361
Total non-current liabilities		**404,532**	34,933
Net assets		**3,712,465**	3,413,106
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**1,011,840**	1,021,827
Reserves	36	**2,487,418**	2,266,595
Proposed final dividends	12	**121,421**	–
		3,620,679	3,288,422
Minority interests		**91,786**	124,684
Total equity		**3,712,465**	3,413,106

LI Dongsheng
Director

YU Guanghui
Director

Consolidated Statement of Changes In Equity

Year ended 31 December 2009

	Attributable to owners of the parent												
Group	Issued capital HK$'000 (Note 35)	Share premium account HK$'000 (Note 35)	Share option reserve HK$'000 (Note 36 (a)(i))	Capital reserve HK$'000 (Note 36 (a)(ii))	Reserve funds HK$'000 (Note 36 (a)(iii))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000 (Note 35)	Awarded share reserve HK$'000 (Note 36 (a)(iv))	Proposed final dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008	583,772	2,132,327	57,278	59,099	704,364	185,709	(1,563,493)	–	–	–	2,159,056	104,518	2,263,574
Total comprehensive income/(loss) for the year	–	–	–	–	–	188,210	(268,245)	–	–	–	(80,035)	23,500	(56,535)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,334)	(3,334)
Issue of shares	438,643	767,626	–	–	–	–	–	–	–	–	1,206,269	–	1,206,269
Share issuance expenses	–	(13,628)	–	–	–	–	–	–	–	–	(13,628)	–	(13,628)
Shares repurchased	(588)	(731)	–	–	–	–	–	–	–	–	(1,319)	–	(1,319)
Equity-settled share option arrangements	–	–	25,887	–	–	–	–	–	–	–	25,887	–	25,887
Share options lapsed/expired during the year	–	–	(42,143)	–	–	–	42,143	–	–	–	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	–	–	–	(7,808)	–	–	(7,808)	–	(7,808)
Transfer from retained profits	–	–	–	–	79,978	–	(79,978)	–	–	–	–	–	–
At 31 December 2008 and 1 January 2009	1,021,827	2,885,594	41,022	59,099	784,342	373,919	(1,869,573)	(7,808)	–	–	3,288,422	124,684	3,413,106
Total comprehensive income/(loss) for the year	–	–	–	–	–	(61,372)	396,523	–	–	–	335,151	7,456	342,607
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(4,041)	(4,041)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(59,563)	(59,563)
Shares repurchased	(19,494)	(36,112)	–	–	–	–	–	–	–	–	(55,606)	–	(55,606)
Equity-settled share option arrangements	–	–	15,146	–	–	–	–	–	–	–	15,146	–	15,146
Issue of shares upon exercise of share options	9,507	49,324	(15,362)	–	–	–	–	–	–	–	43,469	–	43,469
Share options lapsed during the year	–	–	(8,494)	–	–	–	8,494	–	–	–	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	–	–	–	(19,201)	–	–	(19,201)	–	(19,201)
Vesting of shares under the Award Scheme	–	–	–	–	–	–	–	9,859	3,439	–	13,298	–	13,298
Transfer from retained profits	–	–	–	–	73,852	–	(73,852)	–	–	–	–	–	–
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	–	23,250	23,250
Proposed final 2009 dividend	–	(121,421)	–	–	–	–	–	–	–	121,421	–	–	–
At 31 December 2009	1,011,840	2,777,385*	32,312*	59,099*	858,194*	312,547*	(1,538,408)*	(17,150)*	3,439*	121,421	3,620,679	91,786	3,712,465

* These reserve accounts comprise the consolidated reserves of HK$2,487,418,000 (2008: HK$2,266,595,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**571,419**	(132,416)
Adjustments for:			
Finance costs (excluding finance costs on convertible bonds)	6	**127,323**	152,593
Share of profits and losses of jointly-controlled entities and associates		**3,404**	2,624
Loss on disposal of items of property, plant and equipment and the associated prepaid land lease payments, net	7	**7,884**	39,146
Gain on disposal of a subsidiary	7	**(45,333)**	–
Gain on liquidation of subsidiaries	7	**(20,390)**	–
Bank interest income	7	**(14,566)**	(13,760)
Fair value gain on derivative component of convertible bonds		**–**	(374,514)
Loss on early redemption of convertible bonds		**–**	610,883
Finance costs on convertible bonds	6	**–**	72,246
Depreciation	7	**236,165**	252,646
Impairment of items of property, plant and equipment	7	**9,830**	1,680
Impairment of other intangible assets	7	**10,327**	19,958
Amortisation of other intangible assets	7	**4,161**	6,597
Amortisation of prepaid land lease payments	7	**2,339**	2,434
Equity-settled share option expense	7	**15,146**	25,887
		907,709	666,004
Decrease/(increase) in inventories		**(1,850,549)**	401,738
Increase in trade receivables		**(125,709)**	(1,175,354)
Increase in bills receivable		**(146,379)**	(28,435)
Decrease/(increase) in other receivables		**(67,624)**	151,040
Increase in trade payables		**1,613,357**	129,173
Increase/(decrease) in bills payable		**(137,177)**	531,020
Increase/(decrease) in other payables and accruals		**412,070**	(89,722)
Increase/(decrease) in provisions		**90,905**	(226,497)
Increase/(decrease) in pensions and other post-employment benefits		**(528)**	6,955
Cash generated from operations		**696,075**	365,922
Interest paid		**(134,767)**	(174,714)
Income taxes paid		**(165,619)**	(59,591)
Net cash flows from operating activities		**395,689**	131,617

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Net cash flows from operating activities		**395,689**	131,617
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**14,566**	13,760
Purchases of items of property, plant and equipment		**(490,613)**	(180,325)
Deposit paid for the acquisition of prepaid land lease payments		**–**	(3,407)
Prepayment of land lease payments		**(22,213)**	–
Proceeds from disposal of items of property, plant and equipment and the associated prepaid land lease payments		**20,301**	75,717
Investment in an associate		**(10,216)**	–
Disposal of a subsidiary	37(a)	**87,598**	–
Advance receipt in respect of the disposal of the Pledged Interest	37(a)	**65,215**	–
Liquidation of subsidiaries	37(b)	**(19)**	–
Purchases of available-for-sale investments		**(174)**	–
Increase in pledged deposits		**(86,725)**	–
Net cash flows used in investing activities		**(422,280)**	(94,255)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	**–**	1,206,269
Share issuance expenses	35	**–**	(13,628)
Proceeds from issue of shares upon exercise of share options	35	**43,469**	–
Repurchase of shares	35	**(55,606)**	(1,319)
Purchase of shares for the Award Scheme	35	**(19,201)**	(7,808)
Redemption of convertible bonds		**–**	(1,167,949)
New bank and other loans		**11,650,859**	10,129,762
Repayment of bank loans		**(11,741,624)**	(9,041,280)
Increase/(decrease) in loans from TCL Corporation		**124,635**	(148,571)
Decrease in loans from T.C.L. Industries		**(79,379)**	–
Capital contribution from a minority shareholder		**23,250**	–
Dividend paid to minority shareholders		**(4,041)**	(3,334)
Net cash flows from/(used in) financing activities		**(57,638)**	952,142
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(84,229)**	989,504
Cash and cash equivalents at beginning of year		**2,157,768**	1,095,341
Effect of foreign exchange rate changes, net		**5,185**	72,923
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,078,724**	2,157,768
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,078,724**	2,157,768

Statement of Financial Position

31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**1,545,920**	1,166,657
CURRENT ASSETS			
Due from subsidiaries	18	**1,613,114**	1,856,459
Other receivables	26	**42,275**	5,957
Cash and bank balances		**2,222**	5,459
Total current assets		**1,657,611**	1,867,875
CURRENT LIABILITIES			
Other payables and accruals	30	**11,724**	29,669
Tax payable		**3,810**	3,810
Total current liabilities		**15,534**	33,479
NET CURRENT ASSETS		**1,642,077**	1,834,396
Net assets		**3,187,997**	3,001,053
EQUITY			
Issued capital	35	**1,011,840**	1,021,827
Reserves	36	**2,054,736**	1,979,226
Proposed final dividends	12	**121,421**	–
Total equity		**3,187,997**	3,001,053

LI Dongsheng
Director

YU Guanghui
Director

1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- manufacture and sale of colour television sets and trading of related components
- manufacture and sale of other audio-visual products

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative financial instruments, which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the carrying amount of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time 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: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets* (early adopted)
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 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

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

** The Group adopted 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 is effective for annual periods beginning on or after 1 July 2009.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKFRS 8 and HKAS 1 (Revised), 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.

The principal effects of adopting HKFRS 8 and HKAS 1 (Revised) are as follows:

(a) HKFRS 8 *Operating Segments*

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. The adoption of HKFRS 8 did not have any effect on the financial position or performance of the Group. However, it has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's senior management and has resulted in changes in identification and presentation of reportable segments. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

(b) HKAS 1 (Revised) *Presentation of 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 one single statement.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that 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 Amendment	Amendment to HKFRS 1 *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[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 Right Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK (IFRIC)-Int14 Amendments	Amendments to HK(IFRIC)-Int14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distribution 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 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, 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

[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

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 that except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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 statement of comprehensive income 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;

2.4 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 interests in jointly-controlled entities 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. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 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. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of impairment of the asset transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' 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.

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

Goodwill previously eliminated against consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in profit or loss of the statement of comprehensive income when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in profit or loss of the statement of comprehensive income.

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, goodwill and non-current assets classified as held for sale), 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 profit or loss of the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired 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 profit or loss of the statement of comprehensive income in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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);

(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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets classified as held for sale". 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 profit or loss of the statement of comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost 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:

Freehold land	Not depreciated
Buildings	2% – 4.5%
Leasehold improvements	25% – 50%
Plant and machinery	9% – 20%
Furniture, fixtures and equipment	18% – 25%
Motor vehicles	18% – 25%

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 depreciation methods 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 profit or loss of the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation 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.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciate or amortised.

2.4 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to profit or loss of the statement of comprehensive income 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.

Operating leases

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss of the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss of the statement of comprehensive income on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised 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:

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 profit or loss of the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss of the statement of comprehensive income in other operating expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in 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.

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 profit or loss of the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss of the statement of comprehensive income in other operating expenses 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 profit or loss of the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

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 profit or loss of the statement of comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a 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 that 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.

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.

2.4 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 profit or loss of the statement of comprehensive income. 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 and all collateral has been realised or has been transferred to the Group.

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 profit or loss of the statement of comprehensive income.

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.

2.4 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 profit or loss of the statement of comprehensive income, is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income.

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 profit or loss of the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss of the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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, amounts due to TCL Corporation and T.C.L. Industries, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 profit or loss of the statement of comprehensive income 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 profit or loss of the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

Convertible bonds which are issued with embedded derivative features are split into a liability component and a derivative component and are accounted for as follows:

At initial recognition the derivative component of the convertible bond is measured at fair value 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 that relate to the issue of the convertible bonds 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 profit or loss of the statement of comprehensive income.

The derivative component is subsequently remeasured at each financial year end and any gains or losses arising from changes in fair value are recognised in profit or loss of the statement of comprehensive income. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss of the statement of comprehensive income on the liability component is calculated using the effective interest method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Convertible bonds (continued)

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as considerations for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the total carrying amount of the liability and derivative components is recognised in profit or loss of the statement of comprehensive income.

Derecognition of financial liabilities

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

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 profit or loss of the statement of comprehensive income.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. 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 profit or loss of the statement of comprehensive income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss of the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 into 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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 profit or loss of the statement of comprehensive income.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 goodwill or 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 investments in subsidiaries, associates and interests in joint ventures, 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.

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 investments in subsidiaries, associates and interests in joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 values 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.

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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) income from the rendering of services, when the services are rendered;

(d) rental income, on a time proportion basis over the lease terms; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme and a share award scheme 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").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 35 to the financial statements.

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 profit or loss of the statement of comprehensive income 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss of the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss of the statement of comprehensive income as they become payable in accordance with the rules of the pension schemes.

Certain subsidiaries operate defined benefit pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

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.

2.4 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 profit or loss of the statement of comprehensive income. 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, jointly-controlled entities and associates 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 statements of comprehensive income 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 the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss of the statement of comprehensive income.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Derecognition of financial assets – Receivables purchase arrangements

The Group has entered into certain receivables purchase arrangements with its banks on its trade receivables. As at 31 December 2009, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with these trade receivables which are purchased by the relevant banks. Accordingly, the relevant trade receivables are fully derecognised.

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 discussed below.

(i) *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 are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 16 to the financial statements.

(ii) *Useful lives and impairment of property, plant and equipment*

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

Estimation uncertainty (continued)

(iii) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying amount of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iv) Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

(v) Warranty provisions

As further explained in note 32, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair values of the share options granted and financial instruments is disclosed in notes 34, 35 and 42, respectively.

4. OPERATING SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker, who is the Chief Executive Officer ("CEO") of the Group, in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 *Segment Reporting*) requires an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of product types. However, information reported to the Group's CEO for the purpose of resource allocation and assessment of performance focuses more specifically on geographical television segments and other product types. The Group's reportable segments under HKFRS 8 are therefore as follows:

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

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

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

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

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.

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

4. OPERATING SEGMENT INFORMATION (continued)

Group	Television – PRC market		Television – Overseas market		AV		Others		Eliminations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**15,864,796**	11,619,265	**10,424,690**	10,741,764	**3,819,373**	2,843,053	**233,691**	569,240	**–**	–	**30,342,550**	25,773,322
Intersegment sales	**2,984,484**	4,268,002	**1,030**	2,408	**47,692**	67,427	**10,667**	13,083	**(3,043,873)**	(4,350,920)	**–**	–
Total	**18,849,280**	15,887,267	**10,425,720**	10,744,172	**3,867,065**	2,910,480	**244,358**	582,323	**(3,043,873)**	(4,350,920)	**30,342,550**	25,773,322
Segment results	**506,224**	639,456	**96,032**	(217,103)	**192,207**	108,555	**1,510**	(56,161)	**–**	–	**795,973**	474,747
Bank interest income											**14,566**	13,760
Corporate expenses											**(108,393)**	(157,091)
Finance costs (excluding finance costs on convertible bonds)											**(127,323)**	(152,593)
Share of profits and losses of:												
Jointly-controlled entities	**(6,418)**	(2,302)	**(89)**	(2,557)	**–**	–	**–**	–	**–**	–	**(6,507)**	(4,859)
Associates	**53**	54	**–**	–	**–**	–	**3,050**	2,181	**–**	–	**3,103**	2,235
											571,419	176,199
Fair value gain on the derivative component of convertible bonds	**–**	–	**–**	–	**–**	–	**–**	374,514	**–**	–	**–**	374,514
Loss on early redemption of convertible bonds	**–**	–	**–**	–	**–**	–	**–**	(610,883)	**–**	–	**–**	(610,883)
Finance costs on convertible bonds	**–**	–	**–**	–	**–**	–	**–**	(72,246)	**–**	–	**–**	(72,246)
Profit/(loss) before tax											**571,419**	(132,416)
Income tax expense											**(167,359)**	(119,045)
Profit/(loss) for the year											**404,060**	(251,461)
Other segment information:												
Depreciation and amortisation	**138,451**	150,082	**87,348**	94,359	**11,266**	7,782	**5,600**	9,454	**–**	–	**242,665**	261,677
Impairment recognised in profit or loss	**–**	1,680	**9,830**	–	**–**	–	**10,327**	19,958	**–**	–	**20,157**	21,638

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Group	Mainland China		Europe		North America		Others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**16,068,870**	11,776,237	**1,572,482**	1,462,078	**3,217,528**	4,110,813	**9,483,670**	8,424,194	**30,342,550**	25,773,322
Non-current assets	**1,453,340**	1,150,202	**221,761**	238,358	**221,080**	319,817	**110,402**	157,637	**2,006,583**	1,866,014

The revenue information above is based on the location of the customers. The non-current asset information above is based on the location of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK$2,679,856,000 (2008: HK$3,031,267,000) was derived from sales by the Television – Overseas market segment to a single customer.

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

6. FINANCE COSTS

	Group	
	2009	2008
	HK$'000	HK$'000
Interest on:		
Bank loans and overdrafts	**108,418**	110,467
Loan from TCL Corporation	**13,884**	3,219
Loan from T.C.L. Industries	**640**	790
Loans from an associate	**10,195**	12,728
Loan from an associate of TCL Corporation	**1,630**	–
Subscription monies received	**–**	25,389
Less: Interest capitalised	**(7,444)**	–
Finance costs (excluding finance costs on convertible bonds)	**127,323**	152,593
Finance costs on convertible bonds:		
Interest on liability component of convertible bonds	**–**	72,246
Total	**127,323**	224,839

7. PROFIT/(LOSS) BEFORE TAX

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

	Group	
	2009	2008
	HK$'000	HK$'000
Cost of inventories sold	**25,400,661**	21,648,590
Depreciation (note 14)	**236,165**	252,646
Research and development costs	**285,073**	231,491
Less: Government grants released*	**(62,318)**	(75,775)
	222,755	155,716
Amortisation of other intangible assets (note 17)	**4,161**	6,597
Minimum lease payments under operating leases in respect of land and buildings	**116,328**	109,721
Amortisation of prepaid land lease payments (note 15)	**2,339**	2,434
Auditors' remuneration	**19,612**	19,622
Employee benefit expense (including directors' remuneration – note 8):		
Wages and salaries	**1,325,391**	1,289,959
Equity-settled share option expense	**15,146**	25,887
Defined contribution expense	**113,676**	105,499
Defined benefit expense (note 34)	**2,424**	7,316
	1,456,637	1,428,661
Foreign exchange differences, net	**(46,330)**	110,272
Impairment of items of property, plant and equipment (note 14)**	**9,830**	1,680
Impairment of other intangible assets (note 17)**	**10,327**	19,958
Impairment of trade receivables (note 24)**	**30,156**	1,556
Write-down of inventories to net realisable value	**29,370**	31,529
Product warranty provision (note 32):		
Additional provision	**321,286**	212,677
Reversal of unutilised provision	**(16,936)**	(65,702)
	304,350	146,975
Net rental income	**(10,446)**	(6,773)
Bank interest income	**(14,566)**	(13,760)
Loss on disposal of items of property, plant and equipment and the associated prepaid land lease payments, net**	**7,884**	39,146
Gain on disposal of a subsidiary (note 37(a))	**(45,333)**	–
Gain on liquidation of subsidiaries (note 37(b))	**(20,390)**	–
Restructuring costs (note 32)**	**25,936**	–

7. PROFIT/(LOSS) BEFORE TAX (continued)

Notes:

* Certain government grants have been received for research activities in the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** The net loss on disposal of items of property, plant and equipment and the associated prepaid land lease payments, impairment of items of property, plant and equipment, impairment of other intangible assets, impairment of trade receivables and restructuring costs are included in "Other operating expenses" on the face of the consolidated statement of comprehensive income.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Fees	**1,545**	1,545
Other emoluments:		
Salaries, allowances and benefits in kind	**8,405**	10,444
Discretionary performance related bonuses	**20,161**	3,742
Equity-settled share option benefits	**3,845**	3,861
Pension scheme contributions	**328**	412
	32,739	18,459
	34,284	20,004

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

	2009			2008		
	Fees	Equity-settled share option benefits	Total	Fees	Equity-settled share option benefits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. TANG Guliang	225	15	240	225	5	230
Mr. Robert Maarten WESTERHOF	150	15	165	150	5	155
Ms. WU Shihong	225	15	240	225	5	230
	600	45	645	600	15	615

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009						
Executive directors:						
Mr. LI Dongsheng	120	650	–	1,855	–	2,625
Mr. YU Guanghui	104	1,086	291	399	59	1,939
Mr. LEONG Yue Wing	120	6,621	19,870	853	269	27,733
Mr. SHI Wanwen	120	–	–	438	–	558
Mr. HUANG Xubin	120	–	–	161	–	281
Ms. XU Fang	50	–	–	79	–	129
Mr. YUAN Bing	–	–	–	–	–	–
Ms. LU Zhongli	16	48	–	–	–	64
Mr. WANG Kangping	70	–	–	–	–	70
	720	8,405	20,161	3,785	328	33,399
Non-executive director:						
Mr. Albert Thomas DA ROSA, Junior	225	–	–	15	–	240
	945	8,405	20,161	3,800	328	33,639

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and a non-executive director (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008						
Executive directors:						
Mr. LI Dongsheng	120	1,215	–	2,059	30	3,424
Mr. LEONG Yue Wing	120	7,784	3,632	325	359	12,220
Mr. SHI Wanwen	120	–	–	1,022	–	1,142
Mr. WANG Kangping	120	–	–	15	–	135
Mr. YUAN Bing	120	1,055	110	262	23	1,570
Ms. LU Zhongli	120	390	–	158	–	668
	720	10,444	3,742	3,841	412	19,159
Non-executive director:						
Mr. Albert Thomas DA ROSA, Junior	225	–	–	5	–	230
	945	10,444	3,742	3,846	412	19,389

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2008: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2008: three) non-director, highest paid employees for the year are as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**9,894**	6,946
Discretionary performance related bonuses	**1,998**	2,510
Equity-settled share option benefits	**490**	724
Pension scheme contributions	**2,758**	463
	15,140	10,643

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

	Number of employees	
	2009	2008
HK$3,000,001 to HK$3,500,000	**2**	2
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,500,001 to HK$5,000,000	**1**	–
	4	3

In prior years, share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in profit or loss of the statement of comprehensive income 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 non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2009	2008
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**1,914**	16,653
Underprovision/(overprovision) in prior years	**1,291**	(13,452)
Current – Elsewhere		
Charge for the year	**167,201**	112,084
Underprovision/(overprovision) in prior years	**(997)**	6,600
Deferred (note 33)	**(2,050)**	(2,840)
Total tax charge for the year	**167,359**	119,045

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory/applicable rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2009	2008
	HK$'000	HK$'000
Profit/(loss) before tax	**571,419**	(132,416)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**107,443**	(51,247)
Lower tax rates for specific provinces or enacted by local authority	**(74,042)**	(87,698)
Effect on opening deferred tax of decrease in rates	**–**	(25)
Adjustments in respect of current tax of previous periods	**294**	(6,852)
Profits and losses attributable to jointly-controlled entities and associates	**(2,143)**	762
Income not subject to tax	**(51,450)**	(51,242)
Expenses not deductible for tax	**124,135**	160,990
Tax losses not recognised	**63,030**	152,760
Others	**92**	1,597
Tax charge at the Group's effective rate	**167,359**	119,045

10. INCOME TAX EXPENSE (continued)

The share of tax attributable to jointly-controlled entities and associates amounting to HK$270,000 (2008: tax credit of HK$434,000) and HK$1,022,000 (2008: HK$539,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" in profit or loss of the consolidated statement of comprehensive income.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions which are subject to income taxes at tax rates ranging from 7.5% to 25%.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK$189,838,000 (2008: loss of HK$419,582,000) which has been dealt with in the financial statements of the Company (note 36).

12. DIVIDENDS

	2009	2008
	HK$'000	HK$'000
Final dividend proposed HK12.00 cents (2008: Nil) per ordinary share	**121,421**	–

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

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings/(loss) per share amounts are based on:

	2009	2008
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	**396,523**	(268,245)
Add: Finance costs on convertible bonds	**–**	72,246
Loss on early redemption of convertible bonds	**–**	610,883
Less: Fair value gain on the derivative component of convertible bonds	**–**	(374,514)
Profit for the purpose of diluted earnings/(loss) per share calculation	**396,523**	40,370

	Number of shares	
	2009	2008*
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**1,012,951,810**	742,134,870
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options during the year	**373,745**	–
Deemed conversion of all convertible bonds	**–**	75,021,108
Weighted average number of ordinary shares in issue during the year used in diluted earnings/(loss) per share calculation	**1,013,325,555**	817,155,978

* The weighted average number of ordinary shares in 2008 for the purposes of calculating the basic and diluted loss per share has been retrospectively adjusted for the ten-to-one share consolidation took place on 23 January 2009 (note 35).

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2008 in respect of a dilution as the impact of the share options and the convertible bonds outstanding during the prior year had an anti-dilutive effect on the basic loss per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009							
At 1 January 2009:							
Cost	969,415	91,726	1,260,870	334,437	58,372	26,469	2,741,289
Accumulated depreciation and impairment	(228,810)	(66,418)	(707,348)	(299,305)	(36,150)	(12,472)	(1,350,503)
Net carrying amount	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
At 1 January 2009, net of accumulated depreciation and impairment	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
Additions	18,901	5,180	154,415	33,010	4,319	282,232	498,057
Disposals	(5,920)	(765)	(29,233)	(410)	(3,052)	–	(39,380)
Depreciation provided during the year	(47,608)	(27,254)	(87,690)	(68,276)	(5,337)	–	(236,165)
Impairment	(83)	(5,534)	(477)	(3,736)	–	–	(9,830)
Transfers	166,107	11,031	76,739	31,138	2,542	(287,557)	–
Exchange realignment	876	521	228	(1,717)	(1)	(3)	(96)
At 31 December 2009, net of accumulated depreciation and impairment	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372
At 31 December 2009:							
Cost	1,148,361	103,879	1,400,267	365,366	57,514	21,139	3,096,526
Accumulated depreciation and impairment	(275,483)	(95,392)	(732,763)	(340,225)	(36,821)	(12,470)	(1,493,154)
Net carrying amount	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Land and buildings HK$'000	Leasehold improve–ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2008							
At 1 January 2008:							
Cost	1,171,232	90,408	1,318,908	381,006	61,456	20,559	3,043,569
Accumulated depreciation and impairment	(235,826)	(50,170)	(773,745)	(267,418)	(36,865)	(12,472)	(1,376,496)
Net carrying amount	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
At 1 January 2008, net of accumulated depreciation and impairment	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
Additions	4,327	16,458	89,271	44,309	4,135	21,825	180,325
Disposals	(22,366)	(6,926)	(23,431)	(49,383)	(1,587)	(1,101)	(104,794)
Depreciation provided during the year	(55,816)	(27,335)	(77,718)	(81,620)	(10,157)	–	(252,646)
Impairment	–	–	(1,671)	(9)	–	–	(1,680)
Transfers	2,726	1,713	876	5,178	4,672	(15,165)	–
Transfer to non-current assets classified as held for sale (note 28)	(182,900)	–	(1,791)	(1,424)	(734)	–	(186,849)
Exchange realignment	59,228	1,160	22,823	4,493	1,302	351	89,357
At 31 December 2008, net of accumulated depreciation and impairment	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
At 31 December 2008:							
Cost	969,415	91,726	1,260,870	334,437	58,372	26,469	2,741,289
Accumulated depreciation and impairment	(228,810)	(66,418)	(707,348)	(299,305)	(36,150)	(12,472)	(1,350,503)
Net carrying amount	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings are situated in the PRC and elsewhere and held under the following lease terms:

	2009	2008
	HK$'000	HK$'000
Freehold	**293,528**	321,194
Short term leases	**116,345**	88,311
Medium term leases	**463,005**	331,100
	872,878	740,605

At 31 December 2009, certain of the Group's buildings with net carrying amounts of approximately HK$88,386,000 (2008: Nil) were pledged to secure a loan from TCL Corporation (note 25) while certain of the Group's buildings and plant and machinery with net carrying amounts of approximately HK$248,507,000 (2008: Nil) and HK$116,279,000 (2008: Nil), respectively, were pledged to secure the bank loans granted to the Group (note 31).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009	2008
	HK$'000	HK$'000
Carrying amount at 1 January	**50,897**	77,331
Additions	**25,620**	–
Disposals	**(1,883)**	(10,069)
Amortised during the year	**(2,339)**	(2,434)
Transfer to non-current assets classified as held for sale (note 28)	**–**	(18,679)
Exchange realignment	**33**	4,748
Carrying amount at 31 December	**72,328**	50,897
Current portion included in other receivables (note 26)	**(1,384)**	(920)
Non-current portion	**70,944**	49,977

15. PREPAID LAND LEASE PAYMENTS (continued)

The Group's leasehold land is situated in the PRC and held under the following lease terms:

	2009	2008
	HK$'000	HK$'000
Short term leases	**12,449**	8,286
Medium term leases	**59,879**	42,611
	72,328	50,897

At 31 December 2009, certain of the Group's prepaid land lease payments with carrying amounts of approximately HK$14,264,000 (2008: Nil) and HK$24,277,000 (2008: Nil) were pledged to secure a loan from TCL Corporation (note 25) and the bank loans granted to the Group (note 31), respectively.

16. GOODWILL

	Group	
	2009	2008
	HK$'000	HK$'000
Cost and carrying amount at 1 January and 31 December	**119,638**	119,638

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated capital reserve.

At 31 December 2009, the amount of goodwill remaining in consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2008: HK$1,819,000), representing its cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the PRC television products cash-generating unit for impairment testing.

The recoverable amount of the PRC television products cash-generating unit has been 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 cash flow projections is 5.51% (2008: 5.05%) and the cash flows beyond the five-year period are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific risks relating to the unit.

17. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation and impairment	**15,293**	**1,695**	**16,988**
Amortisation provided during the year	**(3,778)**	**(383)**	**(4,161)**
Impairment during the year	**(10,327)**	**–**	**(10,327)**
Exchange realignment	**(10)**	**2**	**(8)**
At 31 December 2009	**1,178**	**1,314**	**2,492**
At 31 December 2009:			
Cost	**31,049**	**59,096**	**90,145**
Accumulated amortisation and impairment	**(29,871)**	**(57,782)**	**(87,653)**
Net carrying amount	**1,178**	**1,314**	**2,492**
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation and impairment	20,620	21,912	42,532
Amortisation provided during the year	(6,218)	(379)	(6,597)
Impairment during the year	–	(19,958)	(19,958)
Exchange realignment	891	120	1,011
At 31 December 2008	15,293	1,695	16,988
At 31 December 2008:			
Cost	31,046	59,095	90,141
Accumulated amortisation and impairment	(15,753)	(57,400)	(73,153)
Net carrying amount	15,293	1,695	16,988

An impairment loss of HK$10,327,000 in respect of the Group's patents and licences (2008: HK$19,958,000 in respect of the Group's trademarks) was recognised during the year because the Group had lost certain major licensees and had no alternative business plan for the use of the relevant intangible assets.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	HK$'000	HK$'000
Unlisted shares, at cost	**3,435,297**	3,385,297
Due from subsidiaries	**1,695,468**	2,058,108
Due to subsidiaries	**–**	(252,024)
Capital contribution in respect of employee share-based compensation	**44,073**	38,236
	5,174,838	5,229,617
Provision for impairment	**(2,015,804)**	(2,206,501)
	3,159,034	3,023,116
Less: Portion of amounts due from subsidiaries classified as current assets	**(1,613,114)**	(1,856,459)
	1,545,920	1,166,657

The balances with subsidiaries are unsecured and interest-free. These balances have no fixed terms of repayment, except for the balances due from its subsidiaries totalling HK$1,613,114,000 (2008: HK$1,856,459,000) which are repayable on demand.

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2009	2008	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited**	PRC	RMB88,130,825	**100**	100	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$15,866,637	**100**	100	Manufacture of audio-visual products
TTE Corporation @	British Virgin Islands/ Hong Kong	US$10,000	**100**	100	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	**100**	100	Manufacture and sale of audio-visual products
TCL (Vietnam) Corporation Limited	Vietnam	VND37,135,000,000	**100**	100	Manufacture and sale of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	**100**	100	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	**100**	100	Trading of audio-visual products and components

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2009	2008	Principal activities
TCL Electronics (Thailand) Co. Limited	Thailand	THB255,000,000	**100**	100	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	**100**	100	Investment holding
TCL Belgium S.A.	Belgium	EUR61,500	**100**	100	Investment holding
TCL International Electronics (BVI) Limited@	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TTE (North America) Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR267,937,480	**100**	100	Trading of audio-visual products and components
TCL Information Technology Industrial (Group) Co., Ltd.@	British Virgin Islands/ Hong Kong	US$4,500,000	**100**	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**	PRC	RMB100,880,000	**100**	100	Manufacture of audio-visual products

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2009	2008	Principal activities
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	**100**	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB78,835,125	**70**	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	**100**	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	**100**	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	100	Trading of audio-visual products and components

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2009	2008	Principal activities
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	**100**	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB76,000,000	**100**	100	Manufacture and sale of audio-visual products
TCL-Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB560,000,000	**100**	100	Trading of audio-visual products and components
TTE Technology Canada Limited	Canada	CAD13,000,000	**100**	100	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$75,954,000	**100**	100	Trading of audio-visual products and components

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company		Principal activities
			2009	2008	
TCL Overseas Marketing (Macao Commercial Offshore) Limited	Macao	MOP100,000	**100**	100	Trading of audio-visual products and components
TCL Operations Polska S.P. ZO.O.	Poland	PLN126,716,000	**100**	100	Manufacture of audio-visual products

@ Direct subsidiaries of the Company

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures under the PRC law

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.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2009	2008
	HK$'000	HK$'000
Share of net assets	**109,772**	116,048

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 24 and 29 to the financial statements, respectively.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities, both of which are indirectly held by the Company, are as follows:

Name	Particulars of issued shares /registered capital	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Paid-up capital of USD16,550,000	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Ordinary shares of PHP100 each	Philippines	50	50	50	Trading of audio-visual products

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

	2009 HK$'000	2008 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**124,317**	116,677
Non-current assets	**13,470**	15,576
Current liabilities	**(28,015)**	(16,205)
Net assets	**109,772**	116,048
Share of the jointly-controlled entities' results:		
Turnover	**166,759**	393,727
Other revenue	**1,554**	100,704
	168,313	494,431
Total expenses	**(174,550)**	(499,724)
Income tax expense	**(270)**	434
Loss after tax	**(6,507)**	(4,859)

20. INTERESTS IN ASSOCIATES

	Group 2009 HK$'000	2008 HK$'000
Share of net assets	**99,183**	85,834

Particulars of the associates are as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd. ("TCL Finance")	RMB500,000,000	PRC	14	Provision of financial services
Guangdong Yijiatong Technical Development of Digital Home Co., Ltd. ("Guangdong Yijiatong")	RMB10,000,000	PRC	20	Provision of technical services
Guangzhou Joy Network & Technology Co., Ltd. ("Guangzhou Joy")	RMB30,000,000	PRC	30	Manufacture and sale of computer software products

The Group's shareholdings in TCL Finance, Guangdong Yijiatong and Guangzhou Joy are held through indirectly wholly-owned subsidiaries of the Company.

Although the Group holds less than 20% of the voting power of TCL Finance, in the opinion of the directors, the Group is in a position to exercise significant influence over TCL Finance through its representation on the board of directors and its participation in policy-making processes of TCL Finance.

TCL Finance, Guangdong Yijiatong and Guangzhou Joy have been accounted for using the equity method in these financial statements, and the financial year end of the such associates is coterminous with that of the Group.

20. INTERESTS IN ASSOCIATES (continued)

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

	2009 HK$'000	2008 HK$'000
Assets	**2,247,937**	1,745,684
Liabilities	**1,583,565**	1,137,607
Revenues	**40,981**	37,878
Profits	**22,055**	15,848

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009 **HK$'000**	2008 HK$'000
Unlisted equity investments, at cost	**2,864**	2,690
Provision for impairment	**(1,682)**	(1,682)
	1,182	1,008

The Group's available-for-sale investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) these investments do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

22. PREPAID ROYALTY

	Group	
	2009 **HK$'000**	2008 HK$'000
Total at 31 December	**63,529**	162,099
Less: Portion classified as current assets (note 26)	**(63,529)**	(79,771)
Non-current portion	**–**	82,328

23. INVENTORIES

	Group	
	2009	2008
	HK$'000	HK$'000
Raw materials	**1,625,064**	800,629
Work in progress	**375,083**	251,757
Finished goods	**2,917,749**	2,009,182
	4,917,896	3,061,568

24. TRADE RECEIVABLES

		Group	
		2009	2008
	Note	**HK$'000**	HK$'000
Due from third parties		**4,230,901**	4,096,582
Provision for impairment		**(234,330)**	(200,819)
		3,996,571	3,895,763
Due from related parties:			
Companies controlled by TCL Corporation	25	**29,827**	22,135
Associates of TCL Corporation	25	**15,608**	13,940
Jointly-controlled entities	25	**36,233**	14,709
		81,668	50,784
		4,078,239	3,946,547

The majority of the Group's sales in the PRC were mainly made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

24. TRADE RECEIVABLES (continued)

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

	Group	
	2009	2008
	HK$'000	HK$'000
Current to 90 days	**3,844,734**	3,779,458
91 to 180 days	**151,073**	64,263
181 to 365 days	**68,688**	53,383
Over 365 days	**13,744**	49,443
	4,078,239	3,946,547

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

	Group	
	2009	2008
	HK$'000	HK$'000
At 1 January	**200,819**	317,774
Impairment losses recognised	**30,156**	1,556
Amount written off as uncollectible	**(600)**	(94,114)
Liquidation of subsidiaries	**(1,978)**	–
Exchange realignment	**5,933**	(24,397)
	234,330	200,819

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a 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	**3,377,841**	3,336,724
Less than 90 days past due	**613,199**	505,880
90 – 180 days past due	**27,697**	53,316
Over 180 days past due	**59,502**	50,627
	4,078,239	3,946,547

24. TRADE RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were 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.

At 31 December 2009, the Group's trade receivables due from certain major customers of HK$1,275,582,000 (2008: HK$1,835,241,000) (the "Factored Receivables") were factored to certain banks under certain receivables purchase agreements. At 31 December 2009, the Group has derecognised the Factored Receivables and the corresponding advances from banks of HK$1,144,740,000 (2008:Nil) from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the Factored Receivables as at 31 December 2009.

At 31 December 2008, the advances from the relevant banks of HK$1,665,749,000 received by the Group as consideration for the Factored Receivables were recognised as liabilities in the consolidated statement of financial position.

25. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/ ASSOCIATES OF TCL CORPORATION/T.C.L. INDUSTRIES/JOINTLY-CONTROLLED ENTITIES

The amounts are unsecured and are repayable within one year except for an amount of HK$85,198,000 (2008: Nil) due to TCL Corporation which was secured by certain of the Group's buildings and prepaid land lease payments with net carrying amounts of approximately HK$88,386,000 and HK$14,264,000, respectively. The amounts are interest-free, except for the amounts of HK$44,259,000 and HK$85,198,000 due to TCL Corporation which bear interest at fixed rates of 5.97% per annum and 5.31% per annum, respectively (2008: an amount of HK$4,694,000 due to TCL Corporation which bore interest at 5.40% per annum, being the loan interest rate offered by the Export-Import Bank of China, and an amount of HK$24,920,000 due to T.C.L. Industries which bore interest at 3.08% per annum).

26. OTHER RECEIVABLES

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments and deposits		**135,019**	143,665	**655**	2,956
Other receivables		**588,666**	422,907	**41,620**	2,981
Prepaid land lease payments	15	**1,384**	920	**–**	–
Prepaid royalty	22	**63,529**	79,771	**–**	–
Due from companies controlled by TCL Corporation	25	**3,013**	2,695	**–**	20
Due from associates of TCL Corporation	25	**41,019**	25,155	**–**	–
		832,630	675,113	**42,275**	5,957

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2009, certain time deposits of the Group of HK$86,725,000 (2008: Nil) were pledged as securities for the Group's bank loans (note 31).

Included in the Group's cash and bank balances are deposits of HK$695,680,000 (2008: HK$558,040,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.36% (2008: 0.36%) per annum, being the savings rate offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 41 to the financial statements.

28. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 7 January 2009, the Group entered into a framework agreement (the "Disposal Agreement") with Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd. ("Tianjin Vantone"), an associate of TCL Corporation, to dispose of its entire interests in TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi"), a 70%-owned subsidiary of the Group, for an aggregate initial consideration of RMB159,000,000 (equivalent to HK$181,065,000) (the "Consideration").

The Consideration was further adjusted to RMB142,761,000 (equivalent to HK$161,916,000) after taking into account the receipts/payments of certain assets/liabilities of TCL Wuxi by the Group before the completion of the Disposal Agreement (the "Working Capital Adjustment").

As at 31 December 2008, TCL Wuxi owned a parcel of land with several buildings in Wuxi of the PRC with an aggregate carrying amount of HK$205,528,000 (the "Property"). As the Group has committed to the disposal plan before 31 December 2008, the Property was classified as non-current assets held for sale and included as current assets in the consolidated statement of financial position as at 31 December 2008.

Pursuant to the Disposal Agreement and taking into account the Working Capital Adjustment, the disposal will be completed by the following steps:

(i) The Group to transfer 45% interest in TCL Wuxi (the "Disposal Interest") to Tianjin Vantone for a cash consideration of RMB85,261,000 (equivalent to HK$96,701,000) in June 2009;

(ii) Tianjin Vantone to provide the Group a loan (the "Trust Loan") of RMB57,500,000 (equivalent to HK$65,215,000) for a period up to 26 October 2010;

(iii) The Group to pledge the remaining 25% interest in TCL Wuxi (the "Pledged Interest") in favour of Tianjin Vantone as a security for the Trust Loan; and

(iv) The Group to transfer the Pledged Interest to Tianjin Vantone as settlement of the Trust Loan within 15 days after the maturity of the Trust Loan.

Completion of the Disposal Agreement took place in June 2009 when steps (i) to (iii) above were completed as the Group is no longer entitled to any economic benefits of TCL Wuxi even though it still holds the legal title of the Pledged Interest.

As at 31 December 2009, the Pledged Interest, which will be transferred to Tianjin Vantone as settlement of the Trust Loan, was classified as a non-current asset held for sale and included as a current asset in the consolidated statement of financial position.

29. TRADE PAYABLES

	Note	Group 2009 HK$'000	2008 HK$'000
Due to third parties		**4,867,728**	4,006,184
Due to related parties:			
Companies controlled by TCL Corporation	25	**850,878**	206,370
Associates of TCL Corporation	25	**124,804**	–
Jointly-controlled entities	25	**179,293**	171,809
		1,154,975	378,179
		6,022,703	4,384,363

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

	Group 2009 HK$'000	2008 HK$'000
Current to 90 days	**5,901,881**	4,180,605
91 to 180 days	**48,316**	111,857
181 to 365 days	**13,466**	38,991
Over 365 days	**59,040**	52,910
	6,022,703	4,384,363

The trade payables are non-interest-bearing and are normally settled with credit periods ranging from 30 to 120 days.

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables	(a)	**1,099,272**	701,054	**10,739**	9,543
Accruals		**294,667**	240,168	**32**	32
Receipts in advance		**379,067**	426,931	**–**	–
Due to T.C.L. Industries	(b)	**10,521**	30,102	**–**	19,141
Due to associates of TCL Corporation	25	**953**	953	**953**	953
		1,784,480	1,399,208	**11,724**	29,669

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amount due to T.C.L. Industries is unsecured, interest-free and repayable on demand.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2009			2008		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	1.15/ PBOC base flat rate	2010	172,353	–	–	–
Bank loans – unsecured	0.85 to 5.31/ LIBOR+(0.45 to1.20)	2010	1,182,479	4.86 to 5.88	2009	113,572
Advances from banks as consideration for Factored Receivables	–	–	–	LIBOR+(0.45 to 1.25)/PBOC base flat rate	2009	1,665,749
Trust receipt loans – unsecured	LIBOR +(0.85 to 1.10)	2010	99,888	LIBOR+0.70	2009	125,628
Loans from an associate – unsecured	1.99 to 4.86	2010	241,009	5.10 to 7.10/ HIBOR+5.00	2009	248,980
Loan from an associate of TCL Corporation – secured	PBOC base flat rate	2010	65,319	–	–	–
			1,761,048			2,153,929
Non-current						
Bank loans – secured	PBOC base flat rate	2011–2014	369,192	–	–	–
			2,130,240			2,153,929

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group	
	2009	2008
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**1,454,720**	1,904,949
In the second year	**113,598**	–
In the third to fifth years, inclusive	**255,594**	–
	1,823,912	1,904,949
Loans from an associate repayable:		
Within one year	**241,009**	248,980
Loan from an associate of TCL Corporation repayable:		
Within one year	**65,319**	–
	2,130,240	2,153,929

Notes:

(a) As at 31 December 2009, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

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

(i) pledge of the Group's prepaid land lease payments, buildings and plant and machinery situated in the PRC, which had aggregate carrying amounts at the end of the reporting period of approximately HK$24,277,000 (2008: Nil), HK$248,507,000 (2008: Nil) and HK$116,279,000 (2008: Nil), respectively.

(ii) pledge of certain of the Group's time deposits amounting to HK$86,725,000 (2008: Nil).

(c) The loan due to the associate of TCL Corporation is secured by the Pledged Interest.

(d) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$1,702,188,000 (2008: HK$113,572,000) as at the end of the reporting period.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Included in bank loans are the following amounts denominated in currencies other than the functional currencies of the entities to which they relate:

	Group	
	2009	2008
	HK$'000	HK$'000
United States dollar	**1,055,172**	633,718
Hong Kong dollar	**127,755**	59,974

32. PROVISIONS

Group

	Restructuring costs	**Warranties**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2009	–	128,019	128,019
Additional provision	25,936	321,286	347,222
Amount utilised during the year	(25,051)	(214,330)	(239,381)
Reversal of unutilised amounts	–	(16,936)	(16,936)
Exchange realignment	–	2,872	2,872
At 31 December 2009	885	220,911	221,796

Restructuring costs

Restructuring plans were drawn up in current year for certain reorganisation and rationalisation of the Group's business in order to optimise its industrial base and hence profitability. The restructuring costs were mainly related to the redundancy costs incurred for a streamlined business model.

Warranties

The Group provides warranties ranging from three months to three years to its customers on certain of its electronic 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 returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Notes	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2008		13,772
Deferred tax credited to profit or loss of the statement of comprehensive income during the year	10	(2,111)
Exchange realignment		(89)
Gross deferred tax liabilities at 31 December 2008 and 1 January 2009		11,572
Deferred tax charged to profit or loss of the statement of comprehensive income during the year	10	239
Exchange realignment		7
Gross deferred tax liabilities at 31 December 2009		11,818

33. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

Group

	Note	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2008		10,904	3,358	2,590	16,852
Deferred tax credited/(charged) to profit or loss of the statement of comprehensive income during the year	10	3,096	(2,882)	515	729
Exchange realignment		–	(50)	(318)	(368)
Gross deferred tax assets at 31 December 2008 and 1 January 2009		14,000	426	2,787	17,213
Deferred tax credited/(charged) to profit or loss of the statement of comprehensive income during the year	10	3,000	–	(711)	2,289
Exchange realignment		–	–	2	2
Gross deferred tax assets at 31 December 2009		17,000	426	2,078	19,504

The Group has tax losses of HK$2,428,081,000 (2008: HK$2,185,812,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in the PRC in respect of earnings generated from 1 January 2008.

33. DEFERRED TAX (continued)

At 31 December 2009, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and a jointly-controlled entity established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries and a jointly-controlled entity will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and a jointly-controlled entity in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$1,366,352,000 at 31 December 2009 (2008: HK$484,026,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefit plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in profit or loss of the consolidated statement of comprehensive income and the amounts recognised in the consolidated statement of financial position for the plans.

34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

	2009 HK$'000	2008 HK$'000
Net benefit expense		
Current service cost	**2,179**	6,300
Interest cost on benefit obligation	**160**	849
Net cumulative actuarial loss recognised in profit or loss of the statement of comprehensive income	**85**	167
Net benefit expense	**2,424**	7,316
Benefit liabilities		
Benefit obligation	**21,940**	17,729
Unrecognised net actuarial losses	**1,582**	5,632
Benefit liabilities	**23,522**	23,361

Movements in the benefit liabilities during the year are as follows:

	2009 HK$'000	2008 HK$'000
At 1 January	**23,361**	16,875
Benefit expense (note 7)	**2,424**	7,316
Contributions	**(774)**	(362)
Curtailment	**(2,177)**	–
Exchange realignment	**688**	(468)
At 31 December	**23,522**	23,361

The principal assumptions used in determining the pensions and post-employment benefit obligations under the Group's major plans are shown below:

	2009 %	2008 %
Discount rate	**4.7 – 7.4**	3.3 – 5.3
Future salary increase rate	**2.0 – 10.0**	4.0 – 5.0
Healthcare cost increase rate	**5.0 – 9.5**	5.0 – 9.5

35. SHARE CAPITAL

Shares

	Company 2009 HK$'000	Company 2008 HK$'000
Authorised:		
2,200,000,000 (2008: 22,000,000,000) shares of HK$1.00 each (2008: HK$0.10 each)	**2,200,000**	2,200,000
Issued and fully paid:		
1,011,840,056 (2008: 10,218,266,345) shares of HK$1.00 each (2008: HK$0.10 each)	**1,011,840**	1,021,827

During the year, the movements in share capital and share premium account were as follows:

(a) On 23 January 2009, 10 ordinary shares of HK$0.10 each of the issued and unissued share capital of the Company were consolidated into 1 ordinary share of HK$1.00 each. The authorised share capital of the Company remained at HK$2,200,000,000 but was divided into 2,200,000,000 shares of HK$1.00 each.

(b) During the year, the Company repurchased its own shares on the Stock Exchange as follows:

2009

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate cost paid HK$'000	Transaction costs HK$'000	Total consideration HK$'000
June 2009	15,454,000	3.08	2.25	42,190	152	42,342
July 2009	4,040,000	3.30	3.09	13,183	81	13,264
	19,494,000			55,373	233	55,606

35. SHARE CAPITAL (continued)

Shares (continued)

(b) (continued)

2008

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate cost paid HK$'000	Transaction costs HK$'000	Total consideration HK$'000
January 2008	1,372,000	0.455	0.390	614	5	619
March 2008	1,102,000	0.340	0.335	370	5	375
October 2008	1,476,000	0.088	0.078	118	–	118
November 2008	1,932,000	0.110	0.100	201	6	207
	5,882,000			1,303	16	1,319

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares.

(c) The subscription rights attaching to 4,266,884 share options and 5,240,538 share options were exercised at the subscription prices of HK$2.45 and HK$6.30 per share, respectively, resulting in the issue of 9,507,422 shares of HK$1.00 each for a total cash consideration, before expenses, of HK$43,469,000.

35. SHARE CAPITAL (continued)

Shares (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2008		5,837,715,590	583,772	2,132,327	2,716,099
Issue of shares		4,386,432,755	438,643	767,626	1,206,269
Shares repurchased		(5,882,000)	(588)	(731)	(1,319)
		10,218,266,345	1,021,827	2,899,222	3,921,049
Share issuance expenses		–	–	(13,628)	(13,628)
At 31 December 2008 and 1 January 2009		10,218,266,345	1,021,827	2,885,594	3,907,421
Adjustment arising from the share consolidation	(a)	(9,196,439,711)	–	–	–
Shares repurchased	(b)	(19,494,000)	(19,494)	(36,112)	(55,606)
Issue of shares upon exercise of share options	(c)	9,507,422	9,507	49,324	58,831
Proposed final 2009 dividend		–	–	(121,421)	(121,421)
At 31 December 2009		1,011,840,056	1,011,840	2,777,385	3,789,225

Share options

The Company operates a share option scheme (the "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 Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 15 February 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The purpose of the Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

35. SHARE CAPITAL (continued)

Share options (continued)

The eligible participants of the Scheme include the Employees, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the Board of Directors of the Company (the "Board") at its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the Scheme and subject to shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

The following share options were outstanding under the Scheme during the year:

	2009		2008	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**0.450**	**417,619**	0.832	370,540
Adjustment arising from the share consolidation	**4.501**	**(373,091)**	–	–
Granted during the year	**–**	**–**	0.245	196,389
Lapsed during the year	**5.554**	**(8,339)**	0.982	(31,506)
Exercised during the year	**4.572**	**(9,507)**	–	–
Expired during the year	**–**	**–**	1.167	(117,804)
At 31 December	**4.193**	**26,682**	0.450	417,619

35. SHARE CAPITAL (continued)

Share options (continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$7.023 (2008: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	Exercise price*# HK$ per share	Exercise period
12,076	**6.30**	**Note 1**
14,606	**2.45**	**Note 2**
26,682		

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
222,844	0.630	Note 1
194,775	0.245	Note 2
417,619		

* The exercise price of the share options is subject to adjustment in case of rights on bonus issues, or other similar changes in the Company's share capital.

Exercise prices per share in respect of the outstanding share options were adjusted from HK$0.630 to HK$6.30 and HK$0.245 to HK$2.45, respectively, upon the share consolidation became effective on 23 January 2009.

Note 1: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

35. SHARE CAPITAL (continued)

Share options (continued)

Note 2: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

The fair value of the share options granted during the prior year was HK$18,709,000 (approximately HK$0.095 each). The fair value of equity-settled share options granted in the prior year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2008.

	2008
Dividend yield (%)	Nil
Expected volatility (%)	50.00 per annum
Risk-free interest rate (%)	2.75 per annum
Expected life of options (year)	5.00

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The 9,507,422 share options exercised during the year resulted in the issue of 9,507,422 ordinary shares of the Company and new share capital of HK$9,507,000 and share premium of HK$49,324,000.

At the end of the reporting period, the Company had 26,682,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 26,682,000 additional ordinary shares of the Company and additional share capital of HK$26,682,000 and share premium of HK$85,182,000.

Restricted share award scheme

On 6 February 2008 (the “Adoption Date”), the Board approved a restricted share award scheme (the “Award Scheme”) under which shares of the Company (the “Awarded Shares”) may be awarded to selected employees (the “Selected Employees”) in accordance with the provisions of the Award Scheme and the maximum number of Awarded Shares awarded to the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

35. SHARE CAPITAL (continued)

Restricted share award scheme (continued)

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they are vested in accordance with the rules of the Award Scheme.

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

On 21 April 2008, the shareholders had further approved the Board to implement the Award Scheme to its full extent (i.e., to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

The following Awarded Shares were outstanding under the Award Scheme during the year:

	2009 Number of Awarded Shares '000
At 1 January	**35,816**
Adjustment arising from the share consolidation	**(32,234)**
Purchased during the year (Note a)	**9,224**
Awarded and vested (Note b)	**(4,847)**
At 31 December	**7,959**

35. SHARE CAPITAL (continued)

Restricted share award scheme (continued)

Notes:

(a) During the year, the Trustee purchased 9,224,000 Awarded Shares (2008: 35,816,000) at a total cost (including related transaction costs) of HK$19,201,000 (2008: HK$7,808,000).

(b) During the year, 4,847,023 Awarded Shares (2008: Nil) were granted to certain Selected Employees as settlement of their performance bonuses for the year ended 31 December 2008. The fair value of the Awarded Shares on the date of grant was HK$ 2.744 per share.

36. 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 74 of the financial statements.

(i) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(ii) Capital reserve

The Group's capital reserve originally represented the excess of the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of a subsidiary in prior years remains eliminated against the capital reserve is explained in note 16 to the financial statements.

(iii) Reserve funds

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

(iv) Awarded share reserve

The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

36. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Share option reserve Δ HK$'000	Capital reserve # HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000	Awarded share reserve* HK$'000	Total HK$'000
At 1 January 2008	2,132,327	57,278	738,936	(1,289,921)	–	–	1,638,620
Total comprehensive loss for the year	–	–	–	(419,582)	–	–	(419,582)
Issue of shares	767,626	–	–	–	–	–	767,626
Share issuance expenses	(13,628)	–	–	–	–	–	(13,628)
Shares repurchased	(731)	–	–	–	–	–	(731)
Equity-settled share option arrangements	–	25,887	–	–	–	–	25,887
Share options lapsed/expired during the year	–	(42,143)	–	30,985	–	–	(11,158)
Purchase of shares for the Award Scheme	–	–	–	–	(7,808)	–	(7,808)
At 31 December 2008 and 1 January 2009	2,885,594	41,022	738,936	(1,678,518)	(7,808)	–	1,979,226
Total comprehensive income for the year	–	–	–	189,838	–	–	189,838
Shares repurchased	(36,112)	–	–	–	–	–	(36,112)
Equity-settled share option arrangements	–	15,146	–	–	–	–	15,146
Issue of shares upon exercise of share options	49,324	(15,362)	–	–	–	–	33,962
Share options lapsed during the year	–	(8,494)	–	8,494	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	(19,201)	–	(19,201)
Vesting of shares under the Award Scheme	–	–	–	–	9,859	3,439	13,298
Proposed final 2009 dividend	(121,421)	–	–	–	–	–	(121,421)
At 31 December 2009	2,777,385	32,312	738,936	(1,480,186)	(17,150)	3,439	2,054,736

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

36. RESERVES (continued)

(b) Company (continued)

The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

* The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of a subsidiary

The Disposal Agreement was completed in June 2009 and details of the net assets disposed of under the Disposal Agreement and their financial impacts are summarised below.

	2009 **HK$'000**
Net assets disposed of:	
Cash and bank balances	**30**
Non-current assets classified as held for sale	**217,214**
Other payables	**(18,701)**
Minority interests	**(59,563)**
	138,980
Release of exchange fluctuation reserve upon disposal	**(22,397)**
The Pledged Interest classified as held for sale (note 28)	**(65,215)**
Gain on disposal of a subsidiary (note 7)	**45,333**
	96,701

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Disposal of a subsidiary (continued)

	2009 HK$'000
Satisfied by:	
Other receivables	9,073
Cash	87,628
	96,701

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2009 HK$'000
Cash consideration	87,628
Cash and bank balances disposed of	(30)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	87,598

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Liquidation of subsidiaries

TCL Hungary Electronics Limited Liability Company ("TCL Hungary") and Center Profi (formerly known as TCL Russia LLC), both are wholly-owned subsidiaries of the Group, had been dormant for a number of years and were wound up voluntarily in February 2009 and November 2009, respectively.

	2009 HK$'000
Net liabilities of TCL Hungary and Center Profi:	
Other receivables	2,075
Cash and bank balances	19
Trade payables	(11,980)
Other payables and accruals	(15,858)
	(25,744)
Release of exchange fluctuation reserve upon liquidation	5,354
Gain on liquidation of subsidiaries (note 7)	20,390
	–
Net outflow of cash and bank balances in respect of the liquidation of TCL Hungary and Center Profi	(19)

38. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in 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 banking facilities granted to subsidiaries	**–**	–	**4,082,717**	4,014,798
Guarantees given to suppliers in connection with the payment of purchases by subsidiaries	**–**	–	**671,163**	670,770
	–	–	**4,753,880**	4,685,568

As at 31 December 2009, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$1,585 million (2008: HK$1,336 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were not utilised (2008: utilised to the extent of HK$86 million).

In addition, the Company provided guarantees to banks in connection with foreign exchange contracts entered into by certain subsidiaries of the Group. As at 31 December 2009, the aggregate notional amount of unsettled foreign exchange contracts amounted to HK$1,021 million (2008: Nil).

(b) In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe against the Company, TTE Europe and TCL Belgium S.A., an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro 8.7 million (equivalent to approximately HK$96.7 million). During the latest hearing, the former employees had failed to disclose any document in support of their claims. The hearing was postponed to 1 July 2010.

The directors, based on the advice from the Group's legal counsels, believe that the Group has a valid defence against the Claims and, accordingly, has not provided for any liability arising from the Claims.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its office properties and factories under operating lease arrangements with leases negotiated for terms ranging from one to two years.

At 31 December 2009, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK$3,809,000 (2008: HK$386,000).

(b) As lessee

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from two 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	**35,647**	20,129
In the second to fifth years, inclusive	**51,527**	37,114
After five years	**–**	1,391
	87,174	58,634

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted, but not provided for	**89,172**	33,083
Authorised, but not contracted for	**275,631**	4,299
	364,803	37,382

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2009 HK$'000	2008 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**186,709**	785,913
Sales of finished goods	(ii)	**87,979**	57,793
Purchases of finished goods	(iii)	**223,673**	867,977
TCL Corporation:			
Interest expense	(iv)	**13,884**	3,219
Other finance service fee	(ix)	**7,714**	–
T.C.L. Industries:			
Interest expense	(v)	**640**	790
Interest on subscription monies received	(vi)	**–**	19,157
An associate:			
Interest income	(vii)	**3,459**	937
Interest expense	(viii)	**10,195**	12,728
Other finance service fee	(ix)	**392**	351
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	**24,031**	2,137
Sales of finished goods	(ii)	**26,985**	5,001
Purchases of raw materials	(iii)	**1,912,560**	851,243
Purchases of finished goods	(iii)	**21,766**	52,663
Subcontracting fee expense	(x)	**11,659**	11,345
Interest income	(xi)	**–**	21
Rental, maintenance fees and facilities usage fees	(xii)	**2,223**	2,950
Rental expense	(xiii)	**37,583**	39,440
Reimbursement of brand advertising costs	(xiv)	**82,057**	78,891
Logistics service fee expense	(xv)	**39,909**	45,097
Call centre service fee expense	(xvi)	**18,103**	16,850
Sales of mobile phones	(xvii)	**3,975**	213,092
Purchases of mobile phones materials	(xviii)	**66**	178,354

41. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2009 HK$'000	2008 HK$'000
Associates of TCL Corporation:			
Purchases of finished goods	(iii)	**1,865,279**	–
Sales of finished goods	(ii)	**111,179**	–
Rental expense	(xiii)	**1,653**	–
Interest expense	(xix)	**1,630**	–
Directors:			
Interest on subscription monies received	(vi)	**–**	433

Notes:

(i) The sales of raw materials were made at a gross margin of 0 – 3% (2008: 0 – 1%).

(ii) The sales of finished goods were made by reference to the prevailing market prices for comparable transactions.

(iii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iv) The interest was charged at rates ranging from 5.31% to 5.97% per annum (2008: 5.40% per annum, being the loan interest rate offered by the Export-Import Bank of China).

(v) The interest was charged at a rate of 3.08% (2008: 3.08%) per annum, being the 6-month LIBOR on the inception date of the advances.

(vi) In 2008, the interest was charged at a rate of 10% per annum.

(vii) The interest was charged at a rate of 0.36% (2008: 0.36%) per annum, being the savings rate offered by the People's Bank of China.

(viii) The interest was charged at rates ranging from 1.99% to 4.86% per annum (2008: 5.10% to 7.10%/ HIBOR+5.00%).

(ix) The other finance service fee was determined with reference to the rates of other similar services for comparable transactions.

(x) The subcontracting fee was determined with reference to subcontracting fees charged by third party companies offering similar services.

41. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(xi) In 2008, the interest was charged at a rate of 0.36% per annum, being the saving rate offered by the People's Bank of China.

(xii) The rental, maintenance fees and facilities usage fees were determined with reference to the rates of other similar premises for comparable transactions.

(xiii) Rental expense was charged at rates ranging from RMB8.4 to RMB52.5 per square metre (2008: rental expense of HK$6,724,000 was charged at rates ranging from RMB52 to RMB70 per square metre and rental expense of HK$32,717,000 constituted a small discount to the rate offered to independent third parties of similar premises located at the same parcel of land).

(xiv) The brand advertising costs represent advertising costs incurred by TCL Corporation and were reimbursed by the Group at cost and at a minimum of 0.5% (2008: 0.5%) of the aggregate net sales of TV products using TCL A brand as defined in the TCL Trademark License Agreement.

(xv) The logistics service fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The call centre service fee was calculated based on the actual cost structure in connection with the provision of the call centre service.

(xvii) The sales of mobile phones were made based on the cost of materials plus a value added rate with reference to other similar services for comparable transactions.

(xviii) The purchases of mobile phones materials were made at cost.

(xix) The interest was charged at PBOC base flat rate.

41. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

On 5 December 2008, TCL King Electrical Appliances (Huizhou) Company Limited, an indirect subsidiary of the Company, entered into a transfer agreement with TCL Optoelectronics Technology (Huizhou) Co., Ltd, a wholly-owned subsidiary of TCL Corporation, to acquire the land use rights in Huizhou of the PRC for a consideration of RMB 21,569,000 (equivalent to HK$24,373,000) for the purpose of building a LCD television plant in future. The transaction was completed on 11 February 2009 upon the completion of the official transfer of the legal title. Further details of this transaction was set out in the Company's announcement dated 5 December 2008.

(c) Details of compensation of key management personnel of the Group are set out in notes 8 and 9 to the financial statements.

Except for the transactions with jointly-controlled entities of the Group and associates of TCL Corporation included in note 41(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings). There is no material impact on other components of the Group's equity.

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2009		
Hong Kong dollar	**(25)**	**163**
United States dollar	**(25)**	**303**
Renminbi	**(25)**	**3,347**
Hong Kong dollar	**25**	**(163)**
United States dollar	**25**	**(303)**
Renminbi	**25**	**(3,347)**

	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax** HK$'000
2008		
Hong Kong dollar	(25)	(77)
United States dollar	(25)	(1,099)
Renminbi	(25)	(259)
Hong Kong dollar	25	77
United States dollar	25	1,099
Renminbi	25	259

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain bank loans are denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates	Increase/ (decrease) in profit before tax
	%	HK$'000
2009		
If Hong Kong dollar weakens against United States dollar	**5**	**(39,614)**
If Renminbi weakens against United States dollar	**5**	**(119,941)**
If Macau Pataca weakens against United States dollar	**5**	**4,385**
If Macau Pataca weakens against Euro	**5**	**4,758**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**39,614**
If Renminbi strengthens against United States dollar	**(5)**	**119,941**
If Macau Pataca strengthens against United States dollar	**(5)**	**(4,385)**
If Macau Pataca strengthens against Euro	**(5)**	**(4,758)**

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in loss before tax HK$'000
2008		
If Hong Kong dollar weakens against United States dollar	5	23,340
If Renminbi weakens against United States dollar	5	55,649
If Macau Pataca weakens against United States dollar	5	1,106
If Macau Pataca weakens against Euro	5	(3,267)
If Hong Kong dollar strengthens against United States dollar	(5)	(23,340)
If Renminbi strengthens against United States dollar	(5)	(55,649)
If Macau Pataca strengthens against United States dollar	(5)	(1,106)
If Macau Pataca strengthens against Euro	(5)	3,267

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 24 and 26, respectively, to the financial statements.

42. 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 borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2009			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	1,779,772	124,226	303,801	2,207,799
Trade payables	6,022,703	–	–	6,022,703
Bills payable	683,076	–	–	683,076
Other payables (note 30)	1,099,272	–	–	1,099,272
Due to TCL Corporation	133,606	–	–	133,606
Due to T.C.L. Industries	48,667	–	–	48,667
Due to associates of TCL Corporation (note 30)	953	–	–	953
	9,768,049	124,226	303,801	10,196,076

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group (continued)

	2008			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	2,170,768	–	–	2,170,768
Trade payables	4,384,363	–	–	4,384,363
Bills payable	820,067	–	–	820,067
Other payables (note 30)	701,054	–	–	701,054
Due to TCL Corporation	4,952	–	–	4,952
Due to T.C.L. Industries	150,918	–	–	150,918
Due to associates of TCL Corporation (note 30)	953	–	–	953
	8,233,075	–	–	8,233,075

Company

	2009			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Other payables (note 30)	**10,739**	**–**	**–**	**10,739**
Due to associates of TCL Corporation (note 30)	**953**	**–**	**–**	**953**
	11,692			**11,692**
The maximum amount of the guarantee given to banks in connection with facilities granted to subsidiaries	**1,585,000**	**–**	**–**	**1,585,000**

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company (continued)

	2008			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Other payables (note 30)	9,543	–	–	9,543
Due to T.C.L. Industries (note 30)	19,141	–	–	19,141
Due to associates of TCL Corporation (note 30)	953	–	–	953
	29,637	–	–	29,637
The maximum amount of the guarantee given to banks in connection with facilities granted to subsidiaries	1,336,000	–	–	1,336,000
The maximum amount of the guarantee given to suppliers in connection with the payment of purchases by subsidiaries	86,000	–	–	86,000
	1,422,000	–	–	1,422,000

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. 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 during the two years ended 31 December 2009 and 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, interest-bearing amounts due to TCL Corporation and T.C.L. Industries, less cash and bank balances and pledged deposits. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

Group	**2009** **HK$'000**	2008 HK$'000
Interest-bearing bank and other borrowings (note 31)	**2,130,240**	2,153,929
Due to TCL Corporation (note 25)	**129,457**	4,694
Due to T.C.L. Industries (note 25)	**–**	24,920
Less: Cash and bank balances (note 27)	**(2,078,724)**	(2,157,768)
Pledged deposits (note 27)	**(86,725)**	–
Net debt	**94,248**	25,775
Equity attributable to owners of the parent	**3,620,679**	3,288,422
Gearing ratio	**2.6%**	0.8%

43. 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

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
	2009	2008	2007	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
TURNOVER	**30,342,550**	25,773,322	21,294,104	29,186,823	32,499,945
PROFIT/(LOSS) BEFORE TAX	**571,419**	(132,416)	(201,263)	(2,411,311)	(578,574)
Income tax expense	**(167,359)**	(119,045)	(51,916)	(96,523)	(107,311)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**404,060**	(251,461)	(253,179)	(2,507,834)	(685,885)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	–	–	7,362	(17,382)
PROFIT/(LOSS) FOR THE YEAR	**404,060**	(251,461)	(253,179)	(2,500,472)	(703,267)
Attributable to:					
Owners of the parent	**396,523**	(268,245)	(262,016)	(2,497,314)	(598,893)
Minority interests	**7,537**	16,784	8,837	(3,158)	(104,374)
	404,060	(251,461)	(253,179)	(2,500,472)	(703,267)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**14,921,161**	12,616,968	10,779,873	12,397,004	18,151,136
Total liabilities	**(11,208,696)**	(9,203,862)	(8,516,299)	(10,706,962)	(14,052,144)
Minority interests	**(91,786)**	(124,684)	(104,518)	(88,876)	(108,476)
	3,620,679	3,288,422	2,159,056	1,601,166	3,990,516

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