simple different
colorful smart
warm accessible
creative one touch
fresh optimistic
unexpected easy

Annual Report 2010

TCL Communication Technology Holdings Limited

Stock Code: 02618

创意感动生活
The Creative Life

TCL

simple different
colorful smart
warm accessible
creative one touch
fresh optimistic
unexpected easy

TCL Communication Technology Holdings Limited ("TCL Communication" or the "Company") together with its subsidiaries (collectively the "Group") design, manufacture and market an expanding portfolio of mobile and internet products worldwide under two key brands - TCL and ALCATEL ONE TOUCH. The Group's portfolio of products is currently sold in the PRC and over 120 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific. TCL Communication operates its highly efficient manufacturing plants and R&D centres in various provinces of China with headquarters in Shenzhen, China. Currently, TCL Corporation ("TCL Corp.") is the Group's largest shareholder.

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

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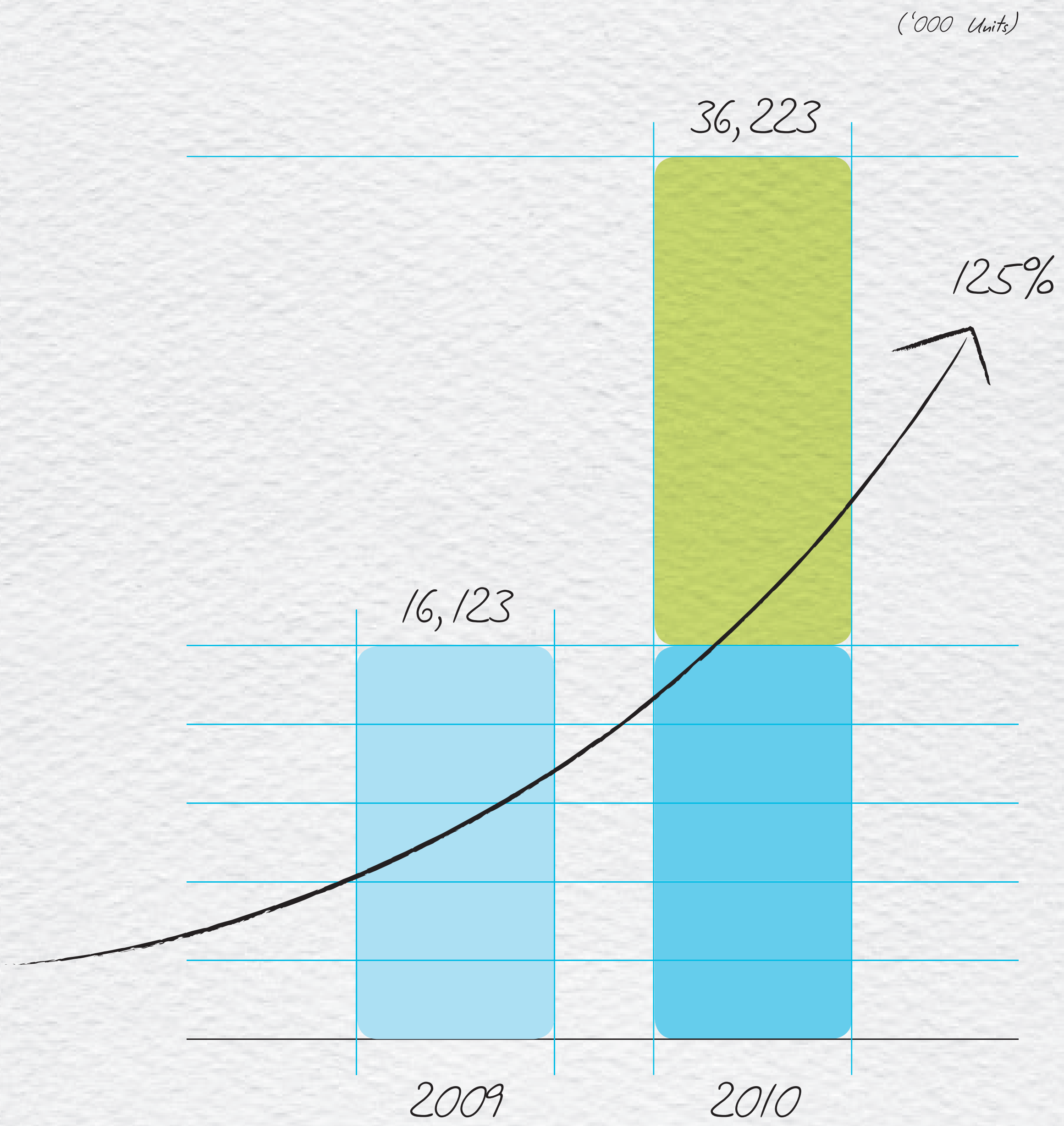
Strong Growth in Sales Volume



FINANCIAL SUMMARY

(HK'000)	2010	2009	Change
Revenue	8,700,694	4,360,886	+100%
Gross profit	1,948,352	948,690	+105%
Gross profit margin(%)	22.4%	21.8%	+0.6%
Profit before effect of convertible bonds	701,770	87,881	+699%
Effect of convertible bonds:			
– Change in fair value of the derivative component of convertible bonds	–	(58,037)	–100%
– Interest on convertible bonds	–	(6,839)	–100%
Profit attributable to owners of the parent	701,884	23,005	+2,951%
Basic EPS (HK cents)	64.69	2.51	+2,477%

FINANCIAL POSITION

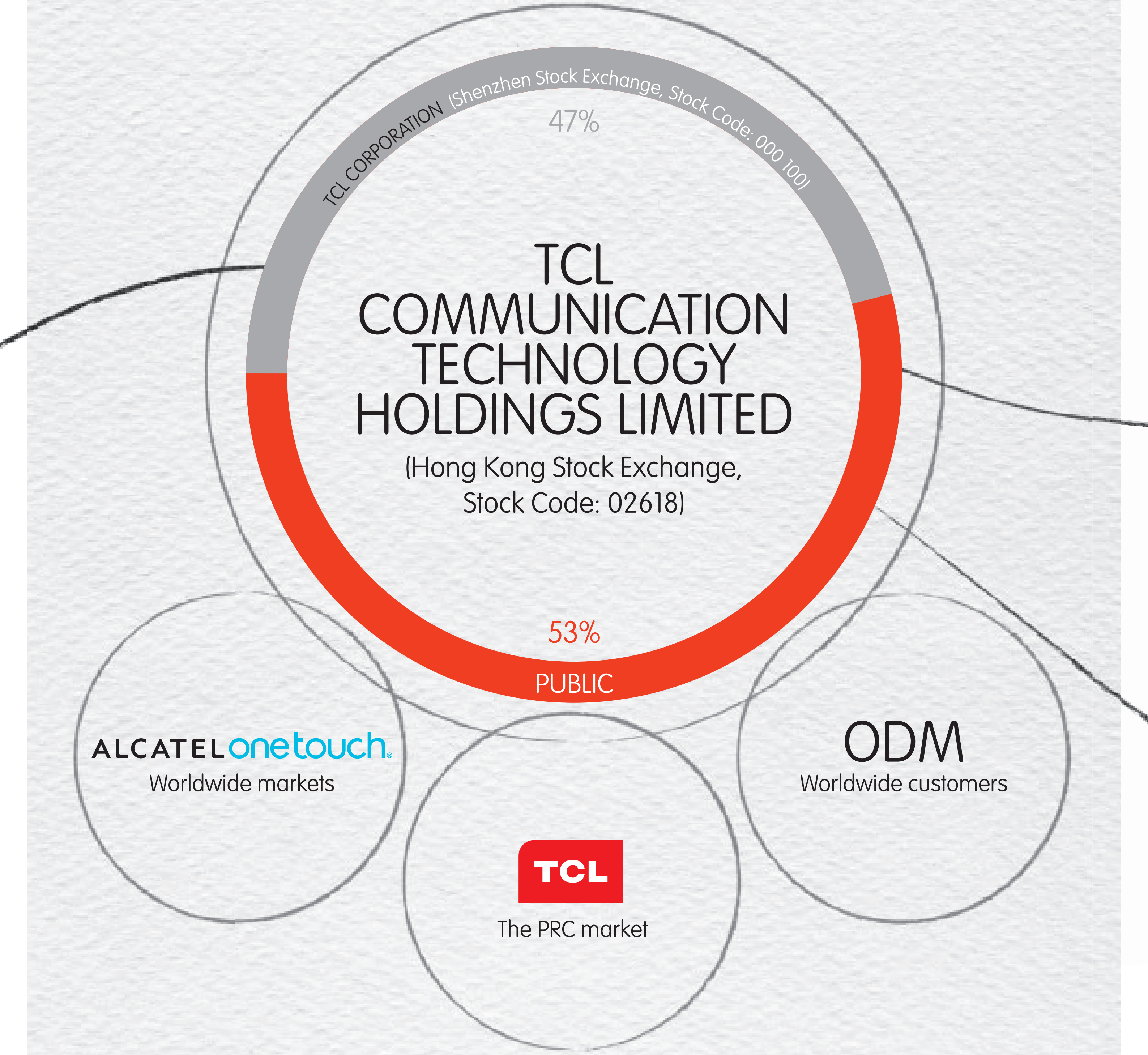
(HK'000)	2010	2009	Change
Property, plant and equipment and prepaid land lease payments	322,265	235,882	+37%
Net current assets	1,605,118	967,835	+66%
Cash and cash equivalents	1,345,283	1,169,750	+15%
Pledged deposits	6,200,996	1,187,336	+422%
Interest bearing borrowings	6,519,144	1,685,911	+287%
Net assets	2,222,184	1,094,701	+103%

KEY FINANCIAL INDICATORS

	2010	2009	Change
Inventory turnover (days) *	14	18	–4
Trade receivable turnover (days) **	69	81	–12
Current ratio (times) ***	1.40	1.24	+13%
Interest bearing borrowings/total assets ****	8%	11%	–27%
Return on equity	64%	2%	+3,100%
Proposed final dividend per share (HK cents)	16.8	3.50	+380%
Full year dividend per share (HK cents)	24.8	3.50	+609%
Dividend payout ratio	38%	139%	–73%

* Finished goods only
** Included trade receivables and factored trade receivables
*** Excluding the arbitrage operation.
**** Excluding the interest-bearing borrowing for RMB foreign exchange program
Note: The above turnover days are calculated on average balance of the year.

CORPORATE STRUCTURE



JANUARY
Mr. Guo Aiping, an Executive Director of TCL Communication, has been appointed as the CEO effective from 11 January 2010.

FEBRUARY
Took part in World Congress 2010 held in Barcelona of Spain, displaying a range of new stylish mobile phones, which received extensive attention from various customers for the fashion and unique design and competitive price.

MAY
Named by Strategy Analytics as "Fastest growing major mobile vendor in the world".

SEPTEMBER
TCL Communication jumped to No.7 in Q2 from No.10 in Q1 this year in terms of handsets sales volume in the global handset market, according to the iSuppli report.

Mr. Look Andrew has been appointed as an Independent Non-Executive Director of TCL Communication, and has also been appointed as a member of the Audit Committee and the Remuneration Committee of the Board, with effect from 20 September 2010.

Successfully launched OT-980 in September 2010, the Group's first 3G Android smartphone, in United Kingdom with positive feedback.

OCTOBER
The OT-806 won "iF Industry Design Award".

NOVEMBER
In November, the Group's handset and accessories shipments surpassed the 4 million mark to reach a historical high record.

The Group's innovative products won industry recognition when it was named the winner of China Patent Award of Excellence for its mobile network real-time transmission storing method and system. The patent was one of the Group's core patent inventions and an important application patent for 3G and 4G communications.

DECEMBER
TCL Communication was awarded "Hongkong Outstanding Enterprise 2010" by Economic Digest on 6 December 2010 based on the Group's breakthrough growth and excellent comprehensive strength.

Furthermore, TCL Communication won major design awards of China in December: OT-808 won the "China Red Star Award"; OT-808 and OT-806 won the "KAPOK PRIZE".

Sales Volume Increase 125% over 2009

Mr. Li Dongsheng

Dear Shareholders,

In 2010, the Group continued to implement its growth strategy focusing on geographical expansion into new and high potential markets globally, "Step-up" product strategy, brand building and Original Design Manufacturer ("ODM") business. I am pleased to report that our strategy is paying off and the Group was able to produce outstanding results last year on the back of a strong global recovery accompanied by a sustainable growth in demand for our handsets.

During the year under review, sales volume of handsets and accessories reached a total of 36.2 million units, up 125% year-on-year. Sales volume in the last quarter of 2010 surpassed the 12-million mark for the first time to reach 12.5 million units. The Group reported a significant increase in net profit to HK$702 million, representing a 30-fold increase year-on-year. As named by Strategy Analytics, an international market research firm, the Group was one of the world's fastest growing handset suppliers by shipment volume.

STRONG GROWTH MOMENTUM

Through its growth strategy, the Group made significant progress in its overseas market expansion in 2010, building on the growth momentum achieved in the previous year. There was remarkable growth in the sales volume across overseas markets, which surged 155% in 2010 to more than 34.1 million units, accounting for 94% of the total sales volume. Both entry-level and mid to high-end products showed impressive growth.

Total sales volume also showed strong growth quarter-on-quarter in 2010, culminating to a record high of 12.5 million in the fourth quarter. The Group continued to actively forge closer partnerships with major telecommunications operators in markets overseas and explore into open market with growth potential in a bid to further expand its market share.

Sales volume in the Americas surged 194% to 18.8 million units from 2009, accounting for half of the Group's total sales volume. The Group's product portfolio of mid to high-end handsets with QWERTY and touch-screen functions are extremely popular there. The ALCATEL brand currently ranked the fourth in Latin America's mobile market.

Sales volume in the Europe, Middle East and Africa ("EMEA") region also grew a spectacular 109% in 2010 year-on-year to 13.4 million units. The Group achieved consistently high growth in sales volume in Africa and the Middle East as well as maintained steady growth in the more developed markets in Europe. Entry level handsets offering basic online experience at an attractive price proved to be extremely popular. Internet-enabled handsets which offer outstanding designs and user experience also grew strongly. Besides, the Group has capitalized on the growing demand for smartphones in the region with the successful launch of its first Android 3G smartphone OT-980 in September 2010, particularly in the United Kingdom.

Meanwhile, expansion in the Asia Pacific markets continued to gain momentum with sales volume doubling to 1.9 million units in 2010. There was increased contribution from India and South-East Asia thanks to the Group's efforts in strengthening its brand image and distribution networks in these two markets. The Group also established a strategic partnership with Yahoo to launch products more appealing to consumers in Asia Pacific.

The PRC market recorded sales of 2.1 million units, down by 23% from 2009 due to the decline in ODM business. Nevertheless, the results in the PRC segment rebound in profitability through successful channel building and product development. In addition, the Group was the first handset company to be endorsed by China UnionPay for the operation of a secure mobile payment platform. As Android handsets and 3G products grow more popular, the Group is well-equipped in the coming year to capture this growing market and achieve breakthroughs under the stronger brand.

STRENGTHENED FINANCIAL POSITION

Turnover in 2010 surged 100% YOY to HK$8.7 billion and gross profit margin rose to 22.4% from 21.8% last year. Net profit skyrocketed 30 times YOY to HK$702 million. Basic earnings per share soared to 64.69 HK cents from 2.51 HK cents last year.

The Group is actively growing its financial resources in anticipation of strong growth ahead. The completion of a Rights Issue in January 2010 has strengthened the capital base of the Group. The funds raised were used to increase our production capacity and further develop the ODM business.

Besides, in view of the extraordinary growth trend, the Board approved Proposed Taiwan Depositary Receipts ("TDR") Issue in December 2010. Proceeds from the issue of TDR will be mainly used for construction of new production plant and the purchase and installation of machinery. The TDR issue will attract investors from Taiwan and overseas, further increasing stock liquidity and diversifying the shareholder base. It will also solidify the Group's reputation and public recognition, and promote the Group's corporate image internationally.

SUCCESSFUL PRODUCT DEVELOPMENT

Our strong growth in 2010 was in large part driven by our "Step-up" product strategy. Building on a strong track record of manufacturing entry-level handsets, the Group has since 2009 progressively focused more on the design and innovation of mid- to high-end products to enhance user experience through more sophisticated designs.

Sales Volume Increase 155% in Overseas

Net Profit Increase 30-fold over 2009

A total of 90 new models were launched in 2010, most of which were widely welcomed by the market. The highlight of our "Step-up" product strategy last year was the successful launches of the Group's first 3G Android smartphone OT-980 and our first 7-inch tablet OT-Magnet. In addition, OT-806 and OT-808 won great recognition in the industry for their innovative designs and features.

In February 2011, the Group established TCL Ningbo R&D Centre for the development of high-end smartphone as part of the Group's business development strategy to enter the high-end smartphone market, laying a new foundation for sustainable growth going forward.

SUSTAINABLE GROWTH AHEAD

The future success of the Group relies on our continued investment in brand building, enhancement of R&D capability, development of new convergence products and establishment of business and technology alliances to offer superior user experience at competitive prices.

The Group will continue to expand in new and high potential markets overseas where its product designs and features are gaining increasing preference by consumers. In addition, the Group will strengthen its R&D capability in 3G and Android-based products. Our plan is to launch over 100 new models in 2011, including Android smartphones and tablets.

In China, the burgeoning 3G market and progressive integration of the computer, communication and consumer electronic products will continue to create opportunities for innovative convergence products. The Group will strive to expand into product segments including converged connected devices and tablets to drive its growth in the China market.

More than ever the Group believes that it is in a great position to forge ahead with its goal to become a leading player in the global handset market. 2010 results of the Group was a strong proof that it has the right strategy, best-in-class products and the economy of scale to capture future growth opportunities. The Group is confident of achieving sustainable growth in both revenue and profitability going forward.

Finally, on behalf of the Board of Directors, I would like to express my gratitude to our shareholders, customers, supplier and business partners for their continued support. My heartfelt thanks also go to all of our staff who have shown strong dedication and made invaluable contribution to the Group last year.

Li Dongsheng
Chairman

25 February 2011


ALCATEL

Management Discussion and Analysis

OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and accessories in 2010 totaled 36.2 million units, up 125% year-on-year (YOY); the fourth quarter sales volume improved remarkably, up 83% YOY to 12.5 million units.
- Revenue in 2010 surged by 100% YOY to HK$8.7 billion; gross profit margin rose to 22.4% from 21.8% in 2009. Net profit skyrocketed 30 times YOY compared to 2009 to HK$702 million. Basic earnings per share soared to 64.69 HK cents from 2.51 HK cents last year.
- The impressive results are attributable to four main reasons: greater efforts in geographical expansion into new and high potential markets globally, successful "Step-up" product strategy, enhanced brand building and ODM business strategy.
- A final dividend of 16.8 HK cents per ordinary share is recommended.
- To maintain sustainable growth through product diversification, product mix, market share and distribution network expansion.

INDUSTRY OVERVIEW

As the global economy continued to recover during the year, the growth in consumer demand and spending remained stable. As a result, mobile handsets and accessories shipments rose solidly throughout 2010. According to telecommunications consultancy, Strategy Analytics, global handset shipments grew by 16% to a record of 1.36 billion units in 2010. The growth was driven by stronger sales of entry-level phones and feature phones in some emerging markets, especially in Latin America and Africa, as well as the popularity of smartphones in developed markets.

As the convergence of voice, video and data technologies continues, handset manufacturers are shifting their focus to higher-margin smartphones in a bid to maintain a balanced product portfolio of smartphones and entry-level handsets. In the coming year, entry-level smartphones, with their attractive pricing, are likely to further penetrate into the mass market. In addition, the emergence of Android has changed the industry landscape as handset vendors no longer have to take the risk of committing resources to develop their own mobile operating systems. Globally, handset vendors have begun to shift their focus from entry-level handsets to higher-margin smartphones in response to market demand. Handset manufacturers are also cooperating with online service providers to provide value-added services to customers to increase their market share.

In recent years, Chinese handset manufacturers have gradually grown to become major vendors of low- to mid-end phones. Meanwhile, these manufacturers have also stepped up their efforts to carve a slice of the smartphone and mid- to high-end mobile phones market, which is a growing market globally. Fueling the growth further are measured by the Chinese government to step up its supervision of mobile phone manufacturers in order to promote the healthy development of the industry through the creation of a favourable business environment and the provision of adequate support.

BUSINESS REVIEW

2010 was a year of breakthrough for the Group. During the year, the Group successfully grasped opportunities from the global economic recovery and achieved significant breakthroughs in both sales and operational performance. As a reflection of these achievements, the Group has been named by Strategy Analytics as one of the world's fastest-growing handset manufacturers. What's more, TCL-ALCATEL was ranked one of the top ten global brands in terms of handset and accessories shipments in 2010, according to iSuppli, an international market research firm.

During the year, the Group delivered significantly improved performance across the board. As part of its globalization strategy, the Group further extended its reach to overseas markets, particularly in the emerging markets such as Africa and Latin America. The roll out of brand building campaigns and continued expansion in sales channels also enabled the Group to strengthen its hold in markets including Russia, India and in some South-east Asian countries.

In addition, the Group has consolidated its strategic alliances in existing markets with major telecommunications operators on a global scale and has established closer partnerships with distributors in the open market. The successes are attributed to the enhanced competitiveness of the Group's products as achieved by stronger R&D and product design capabilities.

REVIEW OF OPERATIONS

During the year under review, the Group achieved record sales and sustained strong growth momentum. A total of 36.2 million units of handsets and accessories were sold, representing a 125% increase from the previous year. Sales volume in the fourth quarter of 2010 also increased sharply, jumping 83% year-on-year to 12.5 million units.

In 2010, the Group made solid progress in expansion into overseas markets. The expansion helped sales grow by 155% to a record 34.1 million units. Shipments in PRC market in 2010 totalled 2.1 million units, a decline of 23% year-on-year due to a drop in ODM business.

During the year, the Group's turnover grew sharply to HK$8,701 million, 100% stronger than the previous year. Due to the development of ODM business, the Group's overall average selling price for the year of 2010 slid to US$31 from US$35 last year, with own-brand product average selling price remained strong at US$34 in 2010. Gross profit margin improved to 22.4% from 21.8% in 2009, thanks to better cost control and a more diversified product mix following the introduction of more mid- to high-end products that command higher margins.

Operational efficiency was also improved substantially during the year. Expenses as a percentage of turnover declined significantly to 16.3% in 2010 from 22.5% a year ago, and fell to 17.3% in the fourth quarter 2010 from 20.4% over the same period last year.

As a result, the Group achieved a staggering 30-fold increase in net profit to HK$702 million year-on-year, helped by strong sales, improved operational efficiency and greater economies of scale. Basic earnings per share increased substantially to 64.69 HK cents from 2.51 HK cents last year. In view of this, the Board of Directors has recommended the payment of a final dividend of 16.8 HK cents per ordinary share subject to the Company's shareholders' approval at the Annual General Meeting ("AGM") to be held on 9 May 2011.

SALES VOLUME BREAKDOWN BY MARKET:

Handsets and Accessories Unit Sales
For the year ended 31 December

('000 units)	**2010**	2009	Change (%)
Overseas	**34,083**	13,351	+155%
The PRC	**2,140**	2,772	-23%
Total	**36,223**	16,123	+125%

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

During the year under review, shipments to EMEA totaled 13.4 million units, a 109% increase on a year-on-year basis, exceeding the sales target in 2010. Shipments in the fourth quarter 2010 alone were up 124% year-on-year to 5.3 million units. The positive sales performance was attributable to a broader product portfolio, stronger distribution channels and a more diversified customer base in Western Europe.

In 2010, the Group delivered robust performance across the United Kingdom, Italy, France, Russia and South Africa, especially in the second half of the year. In Russia, the Group currently ranked No.4 in terms of handset shipments. At the same time, the Group successfully expanded into new markets such as Armenia, Czech and Turkey.

The Group has capitalized on the growing demand for smartphones in the region with the successful launch of its first Android 3G smartphone OT-980 in September 2010, particularly in the United Kingdom. In the coming year, the Group will continue to strengthen its hold on markets where it has already achieved leadership while breaking into new and emerging ones.

Americas

Sales in the Americas showed strong growth momentum in 2010. Shipments to the Americas in the year under review surged an impressive 194% year-on-year to 18.8 million units. Fourth quarter sales improved remarkably with a 94% jump to 6.3 million units over the same period of 2009.

The Group's impressive growth in the region was boosted by the growing popularity of ALCATEL brand which is currently the fourth biggest brand in Latin America. Backed by a proven sales strategy and an enhanced product mix featuring mid-to-high end handsets with QWERTY and touch screen functions, the Group expanded its footprint to new and high potential markets, such as the United States and Cuba, as well as the open market in countries such as Argentina and Chile.

The Group aims to continue to strengthen its sales in existing markets and penetrate deeper into sub-markets such as Canada, the Caribbean and Cuba.

Asia Pacific ("APAC")

Sales volume across the APAC region soared 217% year-on-year to 1.9 million units. With its diversified product portfolio, the Group was able to successfully expand into emerging markets such as the Philippines, Singapore and Vietnam. The successful expansion has not only broadened the Group's customer base but also contributed significantly to the segment's performance in the year under review.

During the year, the Group successfully launched the OT-808 model and cooperated with Yahoo to launch the "One Touch Net" phone in India and South-east Asia, with the aim of providing users in emerging markets with the best user experience at an affordable price. The launch was met with overwhelming market response and has strengthened the Group's brand profile and distribution network. Going forward, the Group will keep up its efforts in strengthening strategic partnerships with external parties for further expansion in new markets.

The PRC

During the year under review, total sales volume in the PRC market decreased by 23% year-on-year to 2.1 million units, as a result of a decline in the ODM business.

Nevertheless, the results in the PRC segment rebound in profitability through successful establishment of a nationwide network of over 1,300 sales shops and partnering with major online media such as Sina, Sohu and Baidu to develop features and contents which are tailored specifically. The Group also became the first handset manufacturer to be endorsed by China UnionPay (CUP) as a secured payment platform provider. The partnership marks an important step by the Group towards becoming a leader in mobile internet handsets. The Group's e-commerce business also delivered improved performances in both operation and sales. During the year, the Group's ALCATEL online flagship store on Taobao Mall, which is the biggest business-to-consumer shopping website in Asia, was ranked one of the top 5 virtual handset stores by sales volume.

As Android handsets and 3G products grow more popular, the Group is well-equipped to capture this growing market and achieve breakthroughs on the back of a stronger brand in the coming year.

PRODUCT DEVELOPMENT

On the product development front, 2010 was a fruitful year for the Group thanks to the successful "Step-up" product strategy.

A total of 90 new models were launched during the year, most of which were well received by the market. They include OT-208, which is hailed as one of the world's most affordable mobile phones; OT-808, a powder compact model catering to the female market; and OT-880, a touch & QWERTY keypad crossover product. Innovative designs and competitive prices are the common characteristics of the three popular handset models, which have been able to sustain their growth momentum throughout the year, reaching a combined sales of 3.5 million units since launch. OT-980 is the Group's first 3G Android smartphone featuring special portrait QWERTY keypad to offer users the best web surfing and instant messaging experience. OT-980 also enables seamless switch between HSUPA and WiFi, providing the most optimized internet browsing experience for users. The launch of OT-980 marks a significant milestone in the Group's foray into the 3G smartphone market. On the other hand, the development of Andriod-based tablets by the Group has also made good progress.

The Group's best selling products in 2009, such as the OT-800 which offers QWERTY keypad, and the intuitive yet practical OT-708 touch screen handset, have been upgraded and they continued to be popular in 2010. A series of lifestyle themed products were launched by the Group's Brand Design Lab and were met with positive market response for their unique and colorful designs.

The Group has won recognition from customers and the industry for some of its products, including iF Industry Design Award for OT-806, China Red Star Design Award for OT-808, and Kapok Prize for both models.

The Group is one of the small number of companies in the world that hold patents in 2G, 2.5G, 2.75G and 3G patents, with abilities to provide solutions for GSM, GPRS, EDGE, CDMA, WCDMA and TD-SCDMA independently thanks to its strong R&D capabilities. One of its core patents was named a winner of China Patent Award of Excellence by the State Intellectual Property Office in November 2010 for its mobile network real-time transmission storage system, which is an important application patent for 3G and 4G communications. In December 2010, the Group entered into a technology transfer agreement to acquire a mobile intelligent terminal devices technology. The acquisition represents a major step by the Group in the 3C era and provides a boost to the Group's effort to develop a smartphone product series.

OUTLOOK

Encouraged by the outstanding business performance in 2010, the Group is optimistic that the growth momentum will continue into 2011. To ensure long-term sustainable growth, the Group will continue to keep up with its proven "Step-up" product strategy. It will also seek to continue to consolidate its leadership position in the low-end handset market, while tightening its grip in the mid- to high-end market by leveraging its ever-strengthening R&D and product design capabilities. The Group will continue to bolster its strategic alliances with major telecommunications operators globally while speeding up expansion in the open market to enhance distribution channels. Another key focus for the Group in the year ahead is to improve operating efficiency through stringent cost control.

In addition, the Group will step up its effort to achieve an even more diversified product portfolio. The Group plans to launch more than 100 new models in 2011, including 3G Android smartphones and a series of tablets. In February 2011, the Group entered into strategic alliance with Sagem Mobiles in France and established TCL Ningbo R&D Centre for the development of high-end smartphone as part of the Group's business development strategy to enter the high-end smartphone market.

The Group sees tremendous growth opportunities from the convergence of voice, video and data technologies, and will explore new product lines including converged connected devices and tablets to tap that growth. More than that, the Group will continue to enhance its focus on developing potential markets and sales channels through a stronger brand profile, especially in the 3G smartphone market, while keeping up its efforts in developing the ODM business to achieve greater economies of scale.

Apart from expanding to overseas markets, the Group will also continue to drive the expansion of its sales channels in the PRC market. One of the Group's key strategies is to launch more customized products to target markets. The Tri-networks integration is also expected to bring opportunities to the industry. With its strong product development capabilities, the Group is confident that it will be able to achieve breakthroughs in the domestic market going forward.

In order to cope with future business growth, the Group has also expanded its production capacity with the establishment of new production plant. In December 2010, the Board of Directors approved the proposed issue of Taiwan Depositary Receipts ("TDR"). Proceeds from the issue of TDR will be mainly used for construction of new production plant and the purchase and installation of machinery. The site of new production plant with area over 300,000 square meters will further increase annual production capacity up to 130 million units for future sustainable development. The TDR issue will attract investors from Taiwan and overseas, further increasing stock liquidity and diversifying the shareholder base. It will also solidify the Group's reputation and public recognition, and promote the Group's corporate image internationally.

Looking forward, in order to lay a solid foundation for sustainable growth, the Group will continue to improve its operational efficiency and step up its cost control and risk management. In view of the current improving business environment, plus the Group's healthy sales pipelines and a well-diversified product portfolio, the Group is confident that it will be able to continue to achieve business growth in the coming year and beyond.

FINANCIAL REVIEW

Results

For the year ended 31 December 2010, the Group's audited consolidated revenue amounted to HK$8,701 million (2009: HK$4,361 million), representing a year-on-year increase of 100% as compared to that of last year.

The Group's gross profit margin rose to 22.4% from 21.8% in the previous year, despite the keen competition and general declining product prices.

EBITDA and profit attributable to owners of the parent were HK$785 million (2009: HK$163 million) and HK$702 million (2009: HK$23 million) respectively. Profit before the effects of convertible bonds[1] in 2009 was HK$88 million. Basic earnings per share was 64.69 HK cents (2009: 2.51 HK cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 14 days (2009: 18 days).

Trade Receivables

Credit period was 30 to 90 days on average and the trade receivable (including trade receivables and factored trade receivables) turnover was 69 days (2009: 81 days).

Significant Investments and Acquisition

On 8 February 2011, the Board of the Company approved to acquire a 100% interest in a company with aggregate purchase consideration of no more than HK$140 million which was in the form of cash. Except for such approval of acquisition, no other significant investment and acquisition during the year ended 31 December 2010 and up to the date of this Annual Report.

Note:

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

Fund Raising

To meet the requirement of ODM business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK$1 per rights share and under the term of one rights share for every two existing shares. The rights issue was completed on 4 January 2010 and 357,811,935 shares were issued for a total consideration of approximately HK$353,489,000 after deduction of related issuance expenses of approximately HK$4,323,000. Except for such rights issue, there was no fund raising during the year ended 31 December 2010 and up to the date of this Annual Report.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year under review. The Group's principal financial instruments comprise cash and cash equivalents, interest bearing bank and other borrowings and bank advances on factored trade receivables. The cash and cash equivalents balances as at 31 December 2010 amounted to HK$1,345 million, of which 50% were in Renminbi, 40% in US dollars, 6% in Euro and 4% in Hong Kong dollars and other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2010 were HK$6,519 million, in which the interest bearing bank and other borrowings were HK$6,488 million (which included those interest-bearing borrowing for Renminbi ("RMB") foreign exchange program amounting to HK$6,037 million) and bank advances on factored trade receivables were about HK$31 million. The Group's financial position remained healthy, with equity attributable to owners of the parent of HK$2,218 million (31 December 2009: HK$1,095 million). The Group had a gearing ratio of 53% at the end of the year (31 December 2009: 25%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets. Excluding the interest-bearing borrowing for RMB foreign exchange program, the gearing ratio was 8% (31 December 2009: 11%).

Pledge Deposits

Deposit balance of approximately HK$6,201 million (31 December 2009: HK$1,187 million) represented the pledged deposit for interest bearing bank borrowings, banking facilities and other financial instruments of approximately HK$6,176 million (31 December 2009: HK$1,115 million) and retention guarantee for factored trade receivables of approximately HK$25 million (31 December 2009: HK$73 million).

Capital Commitment and Contingent Liabilities

As at 31 December 2010, the capital commitments are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Property, plant and equipment		
Contracted but not provided for	**4,177**	–

As at 31 December 2010, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**3,149,030**	455,098

As at 31 December 2010, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$2,942 million (2009: HK$303 million).

Foreign Exchange Exposure

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

Employees and Remuneration Policy

The Group had over 7,600 employees as at 31 December 2010. Total staff costs for the year under review were approximately HK$692 million (2009: HK$433 million). The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

Directors and Senior Management

Mr. LI Dongsheng
aged 54, is the Chairman of the Board and Executive Director of the Company and TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), and the Chairman of the Board and Chief Executive Officer of TCL Corp. Mr. Li is one of the most recognized business leaders in China. Under his leadership, TCL Corp. has set the precedent for being the premiere Chinese corporation to emerge as a formidable player in the global consumer electronics industry.

In 1981, Mr. Li began his career as an engineer in TTK Household Electronic Appliances Co., the predecessor of TCL. In 1985, he was promoted as General Manager of TCL Communication Equipment Co. Ltd, the biggest manufacturer of fixed line phones in China at that time. After being transferred to Huizhou Industrial Development General Company for three years, Mr. Li was then appointed as Deputy Manager, Deputy Secretary of the Party Committee and Secretary of Communist Youth League of Huizhou Municipal Electronic Communication Corp. in 1990. In 1993, Mr. Li became General Manager of the reorganized TCL Electronics Group Co. Since then, TCL entered color TV market, gained rapid growth in sales and became an industry leader. Mr. Li succeeded as Chairman and President of TCL Corp. by end of 1996.

In 2003, Mr. Li was appointed as Chairman of the Board and CEO of TCL Corp. Under his leadership, TCL sealed two landmark deals that placed TCL as a key player in the global consumer electronics industry in 2004: acquisition of Thomson's global TV business, and ALCATEL's global mobile phone business.

In 2009, Mr. Li was awarded "Business Leader of the Decade" by CCTV Economy Channel, and also was listed as one of the "Top 60 Branding Leaders of the Past 60 Years" by Brand China Industry Union. In 2008, Mr. Li received the Deloitte Prize in Barcelona for entrepreneurship and was honored as an "Economic Figure" in China's reform and opening up 30 years. In 2008, Mr. Li was also named by *China Times* as China's "Top Ten Outstanding CEOs." He was awarded "the founder of the brand" in the 30 years of China's reform and opening up by a New York based brands evaluation institute. He was listed as "Brand China 2008 Person of the Year" by Brandcn.com. In 2007, Mr. Li received the "Corporate Leadership Award" from the US-China Forum in Chicago. He was named as "one of the most influential business leaders" by *China Entrepreneur* Magazine in 2006 and 2005, "CCTV man of the Year in the Chinese Economy", "Asia Businessman of the Year" by *Fortune* Magazine and one of the Top 25 Global Business Leaders by *Time* Magazine and CNN in 2004. Mr. Li also received a medal of OFFICER DE LA LEGION D'HONNEUR (French national honor) by French President Mr. Jacques Chirac in 2004, where he became the first Chinese entrepreneur to be awarded the French national honor.

Mr. Li was elected as a delegate to China's 16th Party Congress, and the 10th and 11th National People's Congress. Mr. Li holds a number of prestigious positions including Chairman of China Electronic Imaging Industry Association, Vice Chairman of China Chamber of International Commerce, Chairman of Guangdong Home Appliances Chamber of Commerce, and Honorary President of Shenzhen Flat Panel Display Industry Association. Mr. Li holds a Bachelor's degree in Science from Huanan Polytechnic University.

EXECUTIVE DIRECTOR

Mr. GUO Aiping

aged 48, is the Chief Executive Officer and Executive Director of the Company, and the Senior Vice President of TCL Corp. Mr. Guo joined the Group in July 2001 and he was appointed successively as the Chief Operation Officer, Vice President, Senior Vice President and President. He has extensive experience in overall management of multinational company, strategic planning and development, and merger and acquisition in the worldwide wireless industry. Prior to joining TCL Corp., Mr. Guo held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. He graduated from Stanford University with a Doctor's degree in Management Science and Master's degree in Engineering Economics and System.

NON-EXECUTIVE DIRECTOR

Mr. BO Lianming

aged 48, is a Non-Executive Director of the Company, an Executive Director and Chief Operating Officer of TCL Corp., and an Executive Director of TCL Multimedia. He previously served as the Vice Chairman of the board of TCL Multimedia and the Chairman of Huizhou TCL Home-Appliance Co., Ltd. Mr. Bo also held a number of management positions including Vice President and Financial Director of TCL IT Industrial Group, Vice President of TCL Components Strategic Business Unit, and Executive Vice President of TTE Corporation, as well as Human Resources Director, Vice President and Senior Vice President of TCL Corp. He has over 10 years of experience in the consumer electronics products industry. Before joining TCL Corp. in 2000, he was the Chief Accountant of Shenzhen Airlines. Mr. Bo holds a Doctor's degree in Business Administration from Xi'an Jiaotong University.

Mr. HUANG Xubin

aged 46, is currently a Non-Executive Director of the Company, Chief Financial Officer of TCL Corp., a Non-Executive Director and a member of the audit committee of TCL Multimedia. Mr. Huang joined TCL Corp. in March 2001 and served as the Assistance of Vice President of TCL Corp.. In May 2002, Mr. Huang served as the General Manager of the Financial Settlement Centre of TCL Corp. He became the Chief Economist of TCL Corp. 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 Corp. since July 2007. Mr. Huang has been the Vice President of TCL Corp. since April 2008, and concurrently been the Financial Director of TCL Corp. since June 2008. Before joining TCL Corp., Mr. Huang served as the Head of Credit Facilities Department of China Construction Bank, Guangdong Branch and the Senior Manager of the representative office of China Cinda Asset Management Corporation in Guangzhou. Mr. Huang graduated from Hunan College of Finance &Economics, majoring in Finance, and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, PRC, and holds an EMBA Degree from China Europe International Business School.

Ms. XU Fang

aged 48, is currently a Non-Executive Director of the Company, Vice President and Human Resource Director of TCL Corp., an Executive Director and Chief Human Resources Officer of TCL Multimedia and a member of the remuneration committee thereof. Ms. Xu joined TCL Institute of Training of TCL Corp. as the Dean in February 2004. Ms. Xu became the Deputy Dean of TCL Institute of Leadership Development in February 2006 and the Dean in April 2007. She has been the Human Resources Director of TCL Corp. since September 2007. From September 2007 to May 2010, she concurrently held the position of General Manager of the Human Resources Management Centre. She has been the Vice President of TCL Corp. since October 2010. She is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms Xu obtained a Bachelor's degree in English Linguistics from Nanjing Normal University, and a Master's degree in Business Administration from New York Institute of Technology.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. LAU Siu Ki
aged 52, is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants ("ACCA"). Mr. Lau has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing and had worked for an international accounting firm for over 15 years. Mr. Lau is a member of the ACCA Council and a member of the Executive Committee of the Hong Kong branch of ACCA, and was the Chairman of the Hong Kong branch of ACCA. He is also a consultant in the financial advisory field and an Independent Non-Executive Director of Carry Wealth Holdings Limited, COL Capital Limited, Comba Telecom Systems Holdings Limited, Foxconn International Holdings Limited, Samson Holding Limited, Embry Holdings Limited and Binhai Investment Company Limited, all being companies listed on the Stock Exchange. In the past two years, Mr. Lau has also been an Independent Non-Executive Director of Greenfield Chemical Holdings Limited and Proview International Holdings Limited, both being companies listed on the Stock Exchange.

Mr. SHI Cuiming
aged 71, from 1981 to 1987, Mr. Shi served as Deputy Director of the Department of Postal Economic Research and a Deputy Director General of the Bureau of Finance of the Ministry of Posts and Telecommunications. From 1987 to 1997, he was a Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of Posts and Telecommunications. He was previously the Chairman of the board and the CEO of China Mobile (Hong Kong) Limited, and an Executive Director and Executive Vice President of China Unicom Limited, both companies with their shares listed on the main board of the Stock Exchange and the New York Stock Exchange. Mr. Shi used to be the Chairman of CITIC 1616 Holdings Limited, and is currently the Senior Consultant of that company. He is also an Independent Non-Executive Director of China GreenTech Corporation Limited, a company with its shares listed on the NASDAQ Exchange. Mr. Shi graduated from the Department of Management Engineering at the Beijing University of Posts and Telecommunications in 1963.

Mr. LOOK Andrew
aged 45, has over 20 years' experience in the equity investment analysis of Hong Kong and China stock markets. From 2000 to 2008, Mr. Look served in Union Bank of Switzerland ("UBS") as the head of Hong Kong research, strategy and product and he is now an external consultant to UBS. Prior to joining UBS, Mr. Look was the regional director of PPM Worldwide. Mr. Look is currently the Chief Investment Officer and Managing Director of Look's Asset Management Limited, a SFC licensed asset management company which is based in Hong Kong and founded and solely owned by him. He is also an Independent Non-Executive Director of Ka Shui International Holdings Limited and a consultant of Opes Asia Development Limited, both companies with their shares listed on the Stock Exchange. He holds a Bachelor of Commerce degree from the University of Toronto.

Mr. LIU Chung Laung
aged 76, has been engaged in teaching and research in the field of Electrical Engineering for a long period of time. He is now an Honorary Chair Professor of National Tsing Hua University in Hsinchu, Taiwan. Mr. Liu is also an Independent Non-Executive Director of United Microelectroins Corporation, Anpec Electronics Corporation and an Independent Supervisor of MediaTek Incorporation, and a Director of Macronix International Co., Ltd., all being companies whose shares listed on the Taiwan Stock Exchange. Mr. Liu is an Independent Non-Executive Director of Powerchip Semiconductor Corp. as well, a company with its shares listed on the Taiwan GreTai Securities Market and the Luxembourg Stock Exchange. He was also a Director of Optimax Technology Corporation, a company listed on Taiwan Stock Exchange, and previously an Independent Director of Macronix International Co., Ltd, a company with its shares listed on Taiwan Stock Exchange. He graduated from National Cheng Kung University with a B.Sc. degree in Electrical Engineering in 1956. He also holds S.M. and Sc. D. degree in Electrical Engineering from the Massachusetts Institute of Technology.

EXECUTIVE COMMITTEE

Mr. GUO Aiping
aged 48, is the Chief Executive Officer, and Executive Director of the Company, and the Senior Vice President of TCL Corp.

Mr. LIU Yuk Tung, Thomas
aged 48, is a Senior Vice President and Chief Financial Officer of the Company. Mr. Liu has about 25 years of experience in areas of audit, international finance and trading business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation in US, Sales and Marketing Director and General Manager of Neo-Neon Holdings Limited, a company with its shares listed on the Main board of the Hong Kong Stock Exchange. He is also a CPA of HKICPA, Charted Accountant of ICAEW and fellow member of ACCA. Mr. Liu holds a Bachelor's degree major in Economics from the University of Hong Kong, a MBA from the University of New South Wales, Australia and a Master's degree in Accounting from Jinan University, PRC.

Mr. WANG Jiyang
aged 41, is a Senior Vice President of R&D and General Manager of GSM/WCDMA production line of the Company, responsible for GSM/WCDMA production line management and product research and development, and Vice President of TCL Corp. Mr. Wang joined the Company in 2005, and has over 19 years experience of research, development and management in electronics industry. Prior to joining the Company, he had been Engineer, Project Manager, General Manager of Development Center, Deputy Chief Technology Officer and Vice President of R&D in TCL Mobile Communications Ltd. Mr. Wang graduated from University of Electronic Science and Technology of China with a PhD major in Electrocircuit & System. He also holds an MBA degree from China Europe International Business School.

EXECUTIVE COMMITTEE

Mr. WONG Kwok Chung, Albert
aged 39, is an Executive Vice President and General Manager of Sales & Marketing (APAC) of the Company. Mr. Wong joined the Company in 2005. He has 13 years of experience in computers and electronics industry in Hong Kong, Canada and the PRC. He had been the Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, Chief Executive Officer and Chief Operation Officer of JCT Mobile. Mr. Wong graduated from the University of Toronto with a Bachelor's degree in Science and obtained his Master's degree in Electrical and Electronics Engineering at the Hong Kong University of Science & Technology.

Mr. Yves MOREL
aged 50, is a Senior Vice President of the Company and General Manager of EMEA, responsible for the Company's business in Europe, Middle East and Africa. Mr. Morel has 26 years sales and marketing experience mainly in telecommunications industries. Prior to that, Mr. Morel was a Sales Area Director for ALCATEL mobile phones from 2001 to 2005. He contributed to develop sales area such as Russia, central Europe, Middle East, Africa and Western Europe. Prior to that he held several positions in sales at the PMR division (Private Mobile Radio) for ALCATEL.

Mr. Nicolas ZIBELL
aged 43, is a Senior Vice President of the Company and General Manager of Americas, responsible for the Company's business in the Americas. Mr. Zibell has over 20 years of experience in sales, marketing, product strategy and management in automotive and telecommunications industries in Europe and the Americas. He graduated from École Superieure de Commerce de Lyon and ESADE Business School with an MBA in 1990.

OTHER SENIOR MANAGEMENT

Mr. HUANG Wanquan
aged 46, is a Senior Vice President of the Company, responsible for overall domestic operations since November 2009. From 1990 to 2002, Mr. Huang served in TCL Multimedia, responsible for marketing management, was one of the earliest pioneers of the TCL's TV business marketing network; From 2002 to 2003, he served as International Business Unit General Manager of the Company, responsible for developing the first overseas business; In November 2003, he was appointed as Vice President of the Company, in charge of domestic sales and marketing operations management. Mr. Huang holds a Master's degree major in inorganic non-metallic materials Postgraduate from Zhejiang University and an EMBA from South Polytechnic University.

Mr. WANG Kailong
aged 43, is a Senior Vice President of the Company and the Vice President of TCL Corporate Research. Mr. Wang joined TCL Corp. in February 1999, and served as the Deputy General Manager, Chief Engineer of HuiZhou TCL Mobile Communication Co., Ltd. Before joining TCL Corp., Mr. Wang worked in Xi'an Institute of Space Radio Technology as Senior Test Engineer of satellite transponder for six years, during this time he participated in the launch of China "FY-II" weather satellite, and has rich experience in the satellite transponder research. Mr. Wang graduated from Wuhan University major in Antenna and Microwave Propagation in 1990, and obtained a Master's degree in Electromagnetic and Microwave Technology at China Academy of Space Technology in 1993.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng *(Chairman)*
Mr. GUO Aiping
(Appointed as Chief Executive Officer on 11 January 2010)
Mr. YANG Xinping, Charles
(Appointed as Executive Director and Chief Executive Officer from 1 April 2009 to 11 January 2010, and redesignated as Non-Executive Director on 11 January 2010)

Non-Executive Directors

Mr. BO Lianming
Mr. HUANG Xubin
Ms. XU Fang
Mr. YANG Xinping, Charles
(Redesignated on 11 January 2010 and retired on 10 May 2010)

Independent Non-Executive Directors

Mr. LAU Siu Ki
Mr. SHI Cuiming
Mr. LOOK Andrew
(Appointed on 20 September 2010)
Mr. LIU Chung Laung

AUDIT COMMITTEE

Mr. LAU Siu Ki *(Chairman)*
Mr. SHI Cuiming
Mr. BO Lianming
Mr. LOOK Andrew
(Appointed on 20 September 2010)

REMUNERATION COMMITTEE

Mr. SHI Cuiming *(Chairman)*
Mr. LAU Siu Ki
Mr. BO Lianming
Mr. LOOK Andrew
(Appointed on 20 September 2010)

COMPANY SECRETARY

Ms. PANG Siu Yin

AUTHORISED REPRESENTATIVES

Mr. GUO Aiping
(Appointed on 28 January 2010)
Ms. PANG Siu Yin
Mr. YANG Xinping, Charles
(Appointed on 12 May 2009 and resigned on 28 January 2010)

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Level 9, HSBC Main Building
1 Queen's Road Central
Hong Kong

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

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

SOLICITORS

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

AUDITORS

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

PRINCIPAL SHARE REGISTRAR

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

BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

(effective from 12 July 2010)
Rooms 1910-12A, 19/F, Tower 3
China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

(effective from 1 January 2011)
Hill & Knowlton Asia Ltd
36th Floor, PCCW Tower
Taikoo Place, 979 King's Road, Quarry Bay
Hong Kong

TICKER SYMBOL

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

WEBSITE

http://tclcom.tcl.com

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2010, the Group complied fully with the CG Code.

THE BOARD

(1) THE BOARD OF DIRECTORS

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

Executive Directors:	LI Dongsheng *(Chairman)* GUO Aiping *(appointed as the Chief Executive Officer on 11 January 2010)* YANG Xinping, Charles *(appointed as Executive Director and Chief Executive Officer from 1 April 2009 to 11 January 2010, and redesignated as Non-Executive Director on 11 January 2010)*
Non-Executive Directors:	BO Lianming HUANG Xubin XU Fang YANG Xinping, Charles *(redesignated on 11 January 2010 and retired on 10 May 2010)*
Independent Non-Executive Directors:	LAU Siu Ki SHI Cuiming LOOK Andrew *(appointed on 20 September 2010)* LIU Chung Laung

The biographies of the directors are set out in the "Directors and Senior Management" on pages 25 to 31 of this Annual Report.

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

The Non-Executive Directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders of the Company and the Group as a whole. Throughout the year of 2010, 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 in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received written confirmations from each INED on his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

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

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended 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 by the Board to discuss major issues that require the Board's timely attention and decisions. As the Board highly values the independent opinions and diversified perspectives from the INEDs, they, in addition to the Executive Directors, very often participate in the special Board meetings.

During 2010, the Board held 4 regular meetings at about quarterly intervals and 16 additional meetings (13 of which were held regarding special matters which required the Board's decisions whereas the other 3 meetings were held regarding operational matters involving the attendance of Executive Directors only). Attendance of individual directors at the Board meetings in 2010 is as follows:

	Number of Board meetings attended/eligible to attend		
	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only
Executive Directors			
LI Dongsheng *(Chairman)*	2/4	5/13	3/3
GUO Aiping *(appointed as the Chief Executive Officer on 11 January 2010)*	4/4	12/13	3/3
YANG Xinping, Charles *(appointed as Executive Director and Chief Executive Officer from 1 April 2009 to 11 January 2010, and redesignated as Non-Executive Director on 11 January 2010)*	N/A	N/A	N/A
Non-Executive Directors			
BO Lianming	4/4	11/13	N/A
HUANG Xubin	4/4	12/13	N/A
XU Fang	3/4	10/13	N/A
YANG Xinping, Charles *(redesignated on 11 January 2010 and retired on 10 May 2010)*	2/2	3/3	N/A
Independent Non-Executive Directors			
LAU Siu Ki	4/4	10/13	N/A
SHI Cuiming	4/4	13/13	N/A
LOOK Andrew *(appointed on 20 September 2010)*	1/1	5/5	N/A
LIU Chung Laung	2/4	11/13	N/A

(2) BOARD COMMITTEES

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

(3) MANAGEMENT FUNCTIONS

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

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

(4) OPERATION

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

Members

YANG Xinping, Charles
(appointed on 1 April 2009, and resigned on 11 January 2010)
GUO Aiping
LIU Yuk Tung, Thomas
Yves MOREL
WONG Kwok Chung, Albert
Nicolas ZIBELL
WANG Jiyang

Secretary

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

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

(5) NOMINATION OF DIRECTORS

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

In 2010, there was 1 Board meeting during which the Board considered matters regarding the nomination and/or appointment or re-appointment of director(s), and the attendance record of the directors at this meeting is as follows:

	Attendance
LI Dongsheng *(Chairman)*	1/1
GUO Aiping *(appointed as Chief Executive Officer on 11 January 2010)*	1/1
YANG Xinping, Charles *(appointed as Executive Director and Chief Executive Officer from 1 April 2009 to 11 January 2010, and redesignated as Non-Executive Director on 11 January 2010 and retired on 10 May 2010)*	N/A
BO Lianming	1/1
HUANG Xubin	1/1
XU Fang	1/1
LAU Siu Ki	0/1
SHI Cuiming	1/1
LOOK Andrew	N/A
LIU Chung Laung	0/1

During the meeting, the Board considered the nomination and appointment of Mr. LOOK Andrew as an Independent Non-Executive Director whose term has been effective from 20 September 2010.

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

Procedures for Nomination of Directors

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

Criteria for Nomination of Directors

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

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

(6) APPOINTMENT, RE-ELECTION AND REMOVAL

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

At the last AGM held on 10 May 2010, one-third of the directors (namely Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung) were subject to retirement by rotation and were re-elected. All the other Non-Executive Directors (namely Mr. HUANG Xubin and Mr. BO Lianming) were elected to hold office for a specific term until the next AGM to be held in 2011.

By a Board resolution passed on 22 February 2011, the specific terms of the NEDs and INEDs, subject to rotation, have been extended to end on the AGM which takes place on the third year after the AGM in which they are elected. The extension will take effect from the close of the next AGM to be held in 2011. Therefore, all NEDs and INEDs when re-elected at the next AGM to be held in 2011, their appointment, subject to rotation, will be up to the conclusion of the AGM in 2014.

(7) ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The position of the Chairman is held by Mr. LI Dongsheng, while the position of the Chief Executive Officer had been held by Mr. YANG Xinping, Charles up to 11 January 2010 and was taken up by Mr. GUO Aiping thereafter. This ensures a clear distinction between the Chairman's duty to manage the Board and the Chief Executive Officer's duty to oversee the overall internal operation of the Group.

(8) DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiries have been made with all directors who have confirmed that throughout year 2010, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2010 are set out on pages 50 to 51 of this Annual Report.

BOARD COMMITTEES

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

(1) REMUNERATION COMMITTEE

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

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

A. Remuneration of Directors and Senior Management

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

During 2010, the full Remuneration Committee met 4 times and accomplished the following:

- reviewed the Group's expenses and changes on staff remuneration in 2010; and
- reviewed the levels of remuneration and bonus plan of certain Executive Directors and senior management of the Group.

Attendance of each member at the Remuneration Committee meeting in 2010 is as follows:

	Number of committee meeting attended/eligible to attend
SHI Cuiming *(Chairman)*	4/4
LAU Siu Ki	3/4
LOOK Andrew	N/A
BO Lianming	4/4

Emolument Policy and Long-Term Incentive Plan

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

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

The Non-Executive Directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

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

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on note 11 to the financial statements.

B. Remuneration of Auditors

During 2010, the fees in respect of audit and non-audit services payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK$5,129,000 and HK$1,027,000 respectively. Non-audit services provided by Messrs Ernst & Young included mainly tax services.

(2) AUDIT COMMITTEE

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

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

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

The Audit Committee's work in 2010 includes consideration of the following matters:

- the completeness and accuracy of the 2009 annual and 2010 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 audited report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2010;
- review of the effectiveness of the system of internal control of the Group;
- the audit fees payable to external auditors for year 2010; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted.

During 2010, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meeting attended/eligible to attend
LAU Siu Ki *(Chairman)*	4/4
SHI Cuiming	4/4
LOOK Andrew	1/1
BO Lianming	4/4

Other attendees at the Audit Committee meetings include the Group's Chief Financial Officer and the external auditors for discussion of the audit of the interim and annual results only.

(3) EXECUTIVE COMMITTEE

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

ACCOUNTABILITY AND AUDIT

(1) FINANCIAL REPORTING

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

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements for the year 2010.

(2) INTERNAL CONTROLS

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee 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. During the year under review, the Company conducted a review of the effectiveness of the internal control system of the Group. For the year of 2010, no critical internal control issues have been identified.

INVESTOR RELATIONS

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

Human Resource & Social Responsibilities

Our company has constantly treated our employees as the most valuable asset. As at 31 December 2010, there was a total amount of over 7,600 employees within the enterprise. Our company has always committed to build up a professional team with highly concentration on developing a better individual career path and improving employees' belongingness to the corporation. According to relevant National Law & Regulations, our company has purchased social insurance and commercial insurance for all employees and has also offered a competitive remuneration package. In addition, we have established performance oriented incentive system and promotion system, which produces a fair and equitable working environment.

Our Company establishes a learning organization as its core value and improve employee's creativity and problem solving ability via continuously study, in the meantime, offering sufficient room for staff's individual growth, and to strengthen human resource value through sustained development. In 2010, the Company introduced a number of innovative approaches to add value to our employees, including inviting well-known training organizations, both domestic and international, internal trainers of the Group and e-learning courses. It offered a wide range of training programs of professional and general skills to our staffs, which covered various field such as R&D, manufacturing, sales and marketing, platform management, etc. Since April 2010, the corporation commenced "Job Qualification Project" which was also named "Staffs' Career Development Channel Project". It does not only provide a feasible solution for achieving a win-win situation between employees and the company, but also widens the staffs' career path and to help break through the bottleneck of staffs' individual career development. The Company has also attached great attention to talent pool development. The Eagle System Program has been introduced which includes "Elite Eagle" for medium level of management, "Eagle" for entry level managers and "Eyas" for graduates, which shapes up the Company's talents selection, training and developing systems and assists the staff to achieve better career development. Via various trainings, the leadership and management skills of managers would be enhanced; in the meanwhile, other staffs' professional skills would be improved.

Society is the foundation of the enterprise and as a responsible corporate citizen, the Company would bear its social responsibilities while undertaking steady business operation. As such, the Company strictly complies with the business convention and the Code of Ethics, dedicates to promote environmental protection and energy saving and also proactively participates in charity work.

As a primary member of TCL Group (TCL Corp. together with its subsidiaries, collectively "TCL Group"), we have actively participated in the TCL Group's charitable work. Since 1996, TCL Group and our staffs have donated approximately RMB100 million in cash and supplies.

TCL Group is also one of the leading corporations in China which implements corporate citizenship behavior as a part of the corporate strategy, with a corporate vision of "being a respected and the most innovative leading global enterprise". Recently, a great effort are made to charitable education, Helping the weak & the poor, Employees Welfare and Environment Protection from senior executive officer to entry level staffs within TCL Group.

Report of the Directors

The directors of the Company (the "Directors") are pleased to present the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 61 to 167.

A special dividend of 8 HK cents (2009: Nil) per ordinary share was paid on 6 October 2010. The Directors recommended the payment of a final dividend of 16.8 HK cents (2009: 3.5 HK cents) per share in respect of the year ended 31 December 2010 to shareholders whose names appear on the Register of Members at the close of business on 9 May 2011. Subject to the Company's shareholders' approval at the forthcoming AGM to be held on 9 May 2011, the final dividend will be paid on or about 31 May 2011.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and 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 Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are disclosed in notes 37 and 38 to the financial statements and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Report of the Directors, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 40 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, before payment of the proposed final dividend for the year ended 31 December 2010 the Company had an aggregate of HK$411,216,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. As the aforesaid contributed surplus represents premium arising on an issue of shares of the Company, the entire amount of HK$669,907,000 standing to the credit of the contributed surplus account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After taking into account of the proposed dividend, the amount of premium account would be HK$226,411,000, and after transfer of the contributed surplus as aforesaid, the amount would become HK$896,318,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for 27% of the total purchases for the year and purchase from the largest supplier included therein amounted to 12%.

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

DIRECTORS

The Directors during the year 2010 and up to the date of this Annual Report were:

Executive Directors:

Mr. LI Dongsheng *(Chairman)*

Mr. GUO Aiping
(Appointed as Chief Executive Officer on 11 January 2010)

Mr. YANG Xinping, Charles
(Appointed as Executive Director and Chief Executive Officer from 1 April 2009 to 11 January 2010, and redesignated as Non-Executive Director on 11 January 2010)

Non-Executive Directors:

Mr. BO Lianming

Mr. HUANG Xubin

Ms. XU Fang

Mr. YANG Xinping, Charles
(Redesignated on 11 January 2010 and retired on 10 May 2010)

Independent Non-Executive Directors:

Mr. LAU Siu Ki

Mr. SHI Cuiming

Mr. LOOK Andrew
(Appointed on 20 September 2010)

Mr. LIU Chung Laung

Mr. LOOK Andrew, who was appointed by the Board as an Independent Non-Executive Director effective from 20 September 2010, will be subject to election by Shareholders at the AGM.

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

By a Board resolution passed on 22 February 2011, the specific terms of the NEDs and INEDs subject to rotation, have been extended to end on the AGM which takes place on the third year after the AGM in which they are elected. The extension will take effect from close of the next AGM to be held in 2011. Therefore, all NEDs and INEDs when re-elected at the next AGM to be held in 2011, their appointment, subject to rotation, will be up to the conclusion of the AGM in 2014.

Mr. BO Lianming, Mr. HUANG Xubin, Ms. XU Fang, Mr. LAU Siu Ki, Mr. SHI Cuiming, Mr. LOOK Andrew and Mr. LIU Chung Laung, if re-elected, will hold office until the conclusion of the AGM to be held in 2014.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 25 to 31 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2010, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Particulars of the Directors' remuneration and the five highest paid employees during the financial year are set out in note 11 to the financial statements.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

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

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 5 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2010, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held Personal interests *(Note i)*	Family interests	Number of underlying shares held under equity derivatives *(Note ii)*	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	24,126,120	3,000,000	8,390,888	35,517,008	3.24%
GUO Aiping	3,770,248	–	4,632,203	8,402,451	0.77%
BO Lianming	65,700	–	1,720,632	1,786,332	0.16%
HUANG Xubin	–	–	1,535,841	1,535,841	0.14%
XU Fang	–	–	1,104,528	1,104,528	0.10%
LAU Siu Ki	144,177	–	300,000	444,177	0.04%
SHI Cuiming	41,857	–	300,000	341,857	0.03%
LOOK Andrew	–	–	600,000	600,000	0.05%
LIU Chung Laung	–	–	300,000	300,000	0.03%

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

TCL Corp. (Note iii)

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	232,916,800	–	–	232,916,800	5.50%
BO Lianming	534,894	–	–	534,894	0.01%
XU Fang	–	20,000	–	20,000	0.0005%

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

TCL Multimedia (Note iv)

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	18,411,731	–	3,194,756	21,606,487	1.99%
BO Lianming	1,807	–	340,357	342,164	0.03%
XU Fang	–	–	330,210	330,210	0.03%
HUANG Xubin	–	–	295,229	295,229	0.03%

Notes:

i. On 11 March 2010, the Board approved the grants of 2,250,000 shares of the Company under the Share Award Scheme B and awarded to a Director. Further details of the shares awarded during the year under review were set out in note 39 to the financial statements.

ii. On 11 March 2010, 25 May 2010 and 20 September 2010, new share options were granted to the Directors under the Share Option Scheme of the Company. Further details of the share options during the year under review were set out in note 38 to the financial statements.

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

iv. TCL Multimedia, a company controlled by TCL Corp., is a subsidiary of TCL Corp.

Save as disclosed above, as at 31 December 2010, none of the Directors or Chief Executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

Save as disclosed above and in the "Share Option Scheme" and "Share Award Scheme" disclosed in notes 38 and 39 to the financial statements, respectively, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any Director, their respective spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares or underlying shares in or debentures of the Company or its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name	Type of interest	Interest in shares and underlying shares held	Approximate percentage of the issued shares capital	Notes
TCL Corp.	Interest of controlled corporation	516,221,544	47.03%	i
Mr. WONG Toe Yeung	Beneficial owner/Interest of spouse/ Interest held jointly with another person/Interest of controlled corporation	91,098,138	8.30%	ii
Ms. LEUNG Lai Bing	Beneficial owner/Interest of spouse/ Interest held jointly with another person/Interest of controlled corporation	91,098,138	8.30%	ii

Notes:

i. Under the SFO, TCL Corp. was deemed to be interested in 516,221,544 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

ii. Each of Mr. WONG Toe Yeung and Ms. LEUNG Lai Bing as husband and wife is deemed to be interested in 91,098,138 shares, comprising (a) 17,992,950 shares which are held by Norrell Overseas Invest Ltd. as beneficial owner for the benefit of the MAG Foundation in which Ms. LEUNG is interested; (b) 37,640,000 shares which are held by Ms. LEUNG; (c) 7,734,300 shares which are jointly held by Mr. WONG and Ms. LEUNG; (d) 3,390,888 shares which are held by Mr. WONG; (e) 19,340,000 shares which are held by Top Scale Company Limited, a company wholly owned by Mr. WONG; and (f) options held by Mr. WONG for subscribing 5,000,000 shares.

Save as disclosed above, as at 31 December 2010, no person, other than the Directors and Chief Executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2010, the Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) and continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) with TCL Corp. (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules):

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

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

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

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

During the year, the maximum outstanding balance of deposits (including interest receivable in respect of the deposits) due from the Finance Company was HK$824,344,000 and no fee nor commission in respect of other financial services has been paid by the Group.

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

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

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

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

During the year, the Group contributed HK$1,508,000 under the said brand promotion (renewal) agreement.

c) On 29 December 2006, a master supply agreement was entered into between the Company and TCL Corp. regarding the following for a term of 3 years effective on 15 February 2007. The Company has on 25 November 2009 entered into the master supply (renewal) agreement which becomes effective and supersedes the previous master supply agreement on 1 January 2010. The terms of master supply (renewal) agreement are substantially the same as its predecessor with some minor modification:

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

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

The said master supply (renewal) agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 30 December 2009.

Further details of the said master supply (renewal) agreement were set out in the announcement and circular of the Company dated 26 November 2009 and 11 December 2009.

During the year, the considerations paid by the Group for the above mentioned services (i) and (ii) were HK$581,612,000 and HK$361,380,000 respectively under the said master supply (renewal) agreement.

d) On 6 June 2007, a TD-SCDMA technology cooperation agreement was entered into between JRD Communication (Shenzhen) Ltd. ("JRDC (Shenzhen)", an indirectly wholly owned subsidiary of the Company) and TCL Corporation Technology Centre ("Technology Centre", a wholly-owned subsidiary of TCL Corp.), pursuant to which Technology Centre agrees to develop for JRDC (Shenzhen) the TD-SCDMA handset model with production scheduled in October 2007, whereas JRDC (Shenzhen) agrees to provide Technology Centre with access to a mobile communications platform and structural information of certain handset models, and arrange trial production and network entry testing of the TD-SCDMA handset model. The said technology cooperation agreement was for a term of 3 years from the date of the agreement to 6 June 2010, and the management of the Company has decided not to renew the agreement any more.

Further details of the said technology cooperation agreement were set out in the announcement of the Company dated 3 July 2007.

During the year, no contribution is paid under the said technology cooperation agreement.

e) On 15 August 2008, two lease agreements ("Previous Lease Agreements") were entered into between the Shenzhen Branch Office of TCL Mobile Communication (Hohhot) Co., Ltd. ("TCL Hohhot", an indirectly wholly-owned subsidiary of the Company) and JRDC (Shenzhen) as lessee respectively and Shenzhen TCL Central R&D Co., Ltd. ("Industrial Institute", a subsidiary of TCL Corp.) as landlord, pursuant to which premises at Floors 8, 15, 16, 17, Room 302 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Group for office use. Both lease agreements expired on 31 December 2009.

On 25 November 2009, superseding the previous Lease Agreements, three lease agreements were entered into between JRDC (Shenzhen) as lessee and Industrial Institute as landlord, pursuant to which premises at Floors 8, 15, 16, 17, Room 302 of Block B, Floor 9 (part only) of Block A and Block B, and B1 warehouse of TCL Tower, Shenzhen, the PRC were leased to the Group for office, R&D and warehouse use. All the three leases are substantially on the same terms for a term from 1 January 2010 to 31 December 2011.

Further details of the said lease agreement were set out in the announcement of the Company dated 26 November 2009.

During the year, the total rental borne by JRDC (Shenzhen) under the said lease agreement amounted to HK$7,654,000.

f) On 15 December 2010, a technology transfer agreement was entered into between JRDC (Shenzhen) and Shenzhen TCL High Development Co. Ltd("High Development", a wholly-owned subsidiary of TCL Corp.), pursuant to which the technology invented, developed, designed, advanced and improved by High Development based on, among other things, the Android software platform and TI OMAP3 hardware platform, were transferred to JRDC (Shenzhen) by High Development. The consideration for the transfer of all the rights (including but not limited to intellectual property rights) is RMB15,000,000 (equivalent to approximately HK$17,235,000).

Further details of the said technology transfer agreement were set out in the announcement of the Company dated 15 December 2010.

During the year, the Group contributed HK$17,235,000 under the said technology transfer agreement.

The Independent Non-Executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into:

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

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

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

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

Furthermore, except for the purchase of PRC raw materials from TCL Corp. under the master supply (renewal) agreement mentioned in paragraph (c) above details of which are included in the announcement dated 25 February 2011, Ernst & Young have confirmed to the Board that the above continuing connected transactions:

(i) have been approved by the Board;

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

(iii) have not exceeded the relevant caps disclosed in the relevant announcements and/or circulars of the Company (where applicable); and

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

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 34 to 44 in this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry have been made with all Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the period under review.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 49 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The audited annual results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the Corporate Governance Code. The Audit Committee comprises four members including Mr. LAU Siu Ki (Chairman), Mr. SHI Cuiming and Mr. LOOK Andrew, Independent Non-Executive Directors, and Mr. BO Lianming, a Non-Executive Director.

AUDITORS

The accounts for the year ended 31 December 2010 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming AGM.

On behalf of the Board

Li Dongsheng
Chairman

Hong Kong
25 February 2011

ERNST & YOUNG
安永

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

We have audited the consolidated financial statements of TCL Communication Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 61 to 167, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

ERNST & YOUNG
安 永

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

25 February 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	8	**8,700,694**	4,360,886
Cost of sales		**(6,752,342)**	(3,412,196)
Gross profit		**1,948,352**	948,690
Other income and gains	8	**278,179**	169,964
Research and development costs	9	**(357,179)**	(247,113)
Selling and distribution costs		**(619,627)**	(366,084)
Administrative expenses		**(436,299)**	(340,366)
Other operating expenses		**(5,317)**	(25,601)
Finance costs excluding interest on convertible bonds	10	**(62,976)**	(39,139)
Share of losses of associates		**(1,388)**	(1,455)
Share of profit of a jointly-controlled entity		**1,130**	59
		744,875	98,955
Changes in fair value of the derivative component of convertible bonds		**–**	(58,037)
Interest on convertible bonds	10	**–**	(6,839)
PROFIT BEFORE TAX	9	**744,875**	34,079
Income tax expense	12	**(43,105)**	(11,074)
PROFIT FOR THE YEAR		**701,770**	23,005
Attributable to:			
Owners of the parent	13	**701,884**	23,005
Non-controlling interests		**(114)**	–
		701,770	23,005
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	15		
Basic		**64.69**	2.51
Diluted		**62.99**	N/A

Details of the dividends proposed and declared for the year are disclosed in note 14 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**701,770**	23,005
OTHER COMPREHENSIVE INCOME			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	32	**88,228**	16,115
Reclassification adjustments for gains included in the consolidated income statement	32	**(35,369)**	(9,606)
Income tax effect		**(4,924)**	–
		47,935	6,509
Exchange differences on translation of foreign operations		**39,533**	(9,023)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**87,468**	(2,514)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**789,238**	20,491
Attributable to:			
Owners of the parent		**789,248**	20,491
Non-controlling interests		**(10)**	–
		789,238	20,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 HK$'000	31 December 2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**309,116**	220,211
Prepaid land lease payments	17	**13,149**	15,671
Intangible assets	18	**106,120**	54,876
Deferred tax assets	36	**31,689**	17,276
Goodwill	19	**146,927**	146,856
Investments in associates	21	**7,323**	8,801
Investment in a jointly-controlled entity	22	**–**	3,992
Available-for-sale investments	23	**20,245**	20,245
Other non-current assets		**–**	152
Total non-current assets		**634,569**	488,080
CURRENT ASSETS			
Inventories	24	**779,846**	448,181
Trade receivables	25	**2,535,372**	1,304,069
Factored trade receivables	26	**31,198**	224,223
Notes receivable		**7,091**	4,142
Prepayments, deposits and other receivables	27	**533,823**	282,496
Due from related companies	45(b)	**14,042**	14,289
Tax recoverable		**23**	4,272
Derivative financial instruments	32	**171,405**	34,593
Pledged deposits	28	**6,200,996**	1,187,336
Restricted deposits received from rights issue excess application		**–**	1,604,495
Cash and cash equivalents	28	**1,345,283**	1,169,750
Total current assets		**11,619,079**	6,277,846
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	29	**6,487,946**	1,460,596
Trade and notes payables	31	**1,843,495**	1,073,764
Bank advances on factored trade receivables		**31,198**	224,223
Derivative financial instruments	32	**129,104**	7,723
Tax payable		**11,315**	425
Other payables and accruals		**1,214,315**	737,149
Other payable arising from rights issue excess application		**–**	1,604,495
Provision for warranties	33	**127,547**	63,390
Due to related companies	45(b)	**169,041**	138,246
Total current liabilities		**10,013,961**	5,310,011
NET CURRENT ASSETS		**1,605,118**	967,835
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,239,687**	1,455,915

continued/...

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,239,687**	1,455,915
NON-CURRENT LIABILITIES			
Retirement indemnities	34	**2,351**	1,351
Long service medals	35	**1,275**	959
Other payable arising from rights issue		**–**	357,812
Interest bearing bank and other borrowings	29	**–**	1,092
Deferred tax liabilities	36	**13,877**	–
Total non-current liabilities		**17,503**	361,214
Net assets		**2,222,184**	1,094,701
EQUITY			
Equity attributable to owners of the parent			
Issued capital	37	**1,097,528**	715,624
Shares held for Share Award Scheme	39	**(11,032)**	(27,784)
Reserves	40(a)	**947,145**	369,291
Proposed final dividend	14	**184,805**	37,570
		2,218,446	1,094,701
Non-controlling interests		**3,738**	–
Total equity		**2,222,184**	1,094,701

LI Dongsheng
Director

GUO Aiping
Director

Year ended 31 December 2010

	Attributable to owners of the parent											
	Issued share capital HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded shares reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000 (note 40(a))	Statutory reserves HK$'000 (note 40(a))	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2009	715,050	1,575,709	(47,823)	6,608	68,607	(6,509)	232,555	119,951	101,464	–	(1,700,809)	1,064,803
Profit for the year	–	–	–	–	–	–	–	–	–	–	23,005	23,005
Other comprehensive income for the year:												
Cash flow hedges, net of tax	–	–	–	–	–	6,509	–	–	–	–	–	6,509
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	(9,023)	–	–	(9,023)
Total comprehensive income for the year	–	–	–	–	–	6,509	–	–	(9,023)	–	23,005	20,491
Issue of shares and exercise of share options	574	1,280	–	–	(620)	–	–	–	–	–	–	1,234
Reclassification of lapsed share options	–	20,995	–	–	(20,995)	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	3,767	–	–	–	–	–	–	3,767
Share Award Scheme arrangement	–	–	–	4,406	–	–	–	–	–	–	–	4,406
Reclassification of vested shares	–	(9,413)	20,039	(10,626)	–	–	–	–	–	–	–	–
Proposed 2009 final dividend	–	(37,570)	–	–	–	–	–	–	–	37,570	–	–
At 31 December 2009	715,624	1,551,001*	(27,784)	388*	50,759*	–*	232,555*	119,951*	92,441*	37,570	(1,677,804)*	1,094,701

Year ended 31 December 2010

	Attributable to owners of the parent													
	Issued share capital HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded shares reserve HK$'000	Share option reserve HK$'000	Hedging reserve HK$'000	Contributed surplus HK$'000 (note 40(a))	Statutory reserves HK$'000 (note 40(a))	Exchange fluctuation reserve HK$'000	Proposed final dividend HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010	715,624	1,551,001	(27,784)	388	50,759	–	232,555	119,951	92,441	37,570	(1,677,804)	1,094,701	–	1,094,701
Profit for the year	–	–	–	–	–	–	–	–	–	–	701,884	701,884	(114)	701,770
Other comprehensive income for the year:														
Cash flow hedges, net of tax	–	–	–	–	–	47,935	–	–	–	–	–	47,935	–	47,935
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	–	39,429	–	–	39,429	104	39,533
Total comprehensive income for the year	–	–	–	–	–	47,935	–	–	39,429	–	701,884	789,248	(10)	789,238
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	3,748	3,748
Issue of shares and exercise of share options	381,904	53,306	–	–	(26,114)	–	–	–	–	–	–	409,096	–	409,096
Reclassification of lapsed share options	–	1,236	–	–	(1,236)	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	–	33,244	–	–	–	–	–	–	33,244	–	33,244
Share Award Scheme arrangements	–	–	–	17,117	–	–	–	–	–	–	–	17,117	–	17,117
Reclassification of vested shares	–	(746)	16,752	(16,006)	–	–	–	–	–	–	–	–	–	–
Transfer of share premium to accumulated losses	–	(1,100,000)	–	–	–	–	–	–	–	–	1,100,000	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	71,474	–	–	(71,474)	–	–	–
2009 final dividend declared	–	(405)	–	–	–	–	–	–	–	(37,570)	–	(37,975)	–	(37,975)
2010 special dividend declared	–	(86,985)	–	–	–	–	–	–	–	–	–	(86,985)	–	(86,985)
Proposed 2010 final dividend	–	(184,805)	–	–	–	–	–	–	–	184,805	–	–	–	–
At 31 December 2010	1,097,528	232,602*	(11,032)	1,499*	56,653*	47,935*	232,555*	191,425*	131,870*	184,805	52,606*	2,218,446	3,738	2,222,184

* These reserve accounts comprise the consolidated reserves of approximately HK$947,145,000 (31 December 2009: HK$369,291,000) in the consolidated statement of financial position.

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**744,875**	34,079
Adjustments for:			
Share of losses of associates		**1,388**	1,455
Share of profit of a jointly-controlled entity		**(1,130)**	(59)
Interest income	8	**(82,672)**	(39,357)
Finance costs	10	**62,976**	45,978
Depreciation	9	**56,558**	60,217
Prepaid land lease recognised	9	**733**	733
Amortisation of computer software and intellectual property	9	**3,271**	3,853
Amortisation of deferred development costs	9	**110,645**	72,674
Loss on disposal of items of property, plant and equipment	9	**613**	480
Gain on disposal of prepaid land lease payment	8	**(1,907)**	–
Equity-settled share options expenses	9	**33,244**	3,767
Equity-settled Share Award Scheme expenses	9	**17,117**	4,406
Gain on repurchase of convertible bonds	8	**–**	(44,614)
Change in fair value in derivative financial instruments	32	**58,200**	50,187
Impairment loss of trade receivables and other receivables	9	**3,388**	8,684
Impairment loss of an investment in an associate	9	**–**	12,424
Unrealised loss on changes in fair value of the derivative component of convertible bonds		**–**	58,037
		1,007,299	272,944
Increase in inventories		**(329,199)**	(218,183)
Increase in trade receivables		**(1,229,680)**	(471,258)
(Increase)/decrease in notes receivable		**(2,949)**	12,816
Decrease/(increase) in factored trade receivables		**193,025**	(70,831)
Increase in prepayments, deposits and other receivables		**(197,810)**	(52,328)
Decrease in other non-current assets		**152**	–
Increase in pledged deposits		**(1,179)**	–
(Increase)/decrease in derivative financial instruments		**(20,772)**	4,357
(Increase)/decrease in amounts due from related companies		**(1,203)**	5,557
Increase in trade and notes payables		**766,828**	483,110
Increase in other payables and accruals		**454,162**	232,956
Increase in provision for warranties		**65,165**	3,984
Increase in amounts due to related companies		**108,131**	9,194
Increase/(decrease) in retirement indemnities		**1,084**	(1,036)
Increase/(decrease) in long service medals		**380**	(90)
Cash generated from operations		**813,434**	211,192
Tax (paid)/received		**(32,989)**	23,912
Interest paid		**(49,570)**	(68,634)
Net cash flows from operating activities		**730,875**	166,470

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000 (Restated)
Net cash flows from operating activities		**730,875**	166,470
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(132,122)**	(25,508)
Acquisition of intangible assets	18	**(164,772)**	(82,083)
Proceeds from retirements and disposal of intangible assets	18	**–**	375
Proceeds from disposal of prepaid land lease payment		**3,696**	–
Proceeds from disposal of items of property, plant and equipment		**13,173**	6,536
Acquisition of a subsidiary	41	**7,486**	–
Purchase of available-for-sale investments		**–**	(1)
Investments in associates		**–**	(22,665)
Advance from an associate for decrease in share capital		**3,444**	–
Decrease in other non-current assets		**–**	2,215
(Increase)/decrease in pledged deposits		**(116,956)**	29,654
Interest received		**30,094**	68,748
Net cash flows used in investing activities		**(355,957)**	(22,729)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by open offer and exercise of share options		**55,607**	1,234
Proceeds from rights issue		**–**	357,812
Rights issue expenses		**(2,849)**	(1,474)
Cash (outflow)/inflow from rights issue excess application		**(1,604,495)**	1,604,495
Decrease/(increase) in restricted deposits received from rights issue excess application		**1,604,495**	(1,604,495)
Discount notes issued to the ultimate controlling shareholder		**(77,336)**	77,248
(Increase)/decrease in pledged deposits		**(4,895,525)**	453,509
(Decrease)/increase in bank advances on factored trade receivables		**(193,025)**	70,831
Convertible bonds issuance expenses		**–**	376
Advance from the ultimate controlling shareholder		**10,407,095**	6,091,766
Repayment of advance from the ultimate controlling shareholder		**(10,405,720)**	(6,094,236)
Repurchase of convertible bonds		**–**	(195,105)
New bank loans		**6,413,599**	2,320,903
Repayment of bank loans		**(1,383,156)**	(2,727,080)
Capital element of a finance lease		**(4,413)**	(4,413)
Dividend paid		**(124,960)**	–
Net cash flows (used in)/from financing activities		**(210,683)**	351,371
NET INCREASE IN CASH AND CASH EQUIVALENTS		**164,235**	495,112
Cash and cash equivalents at beginning of year		**1,169,750**	684,382
Effect of foreign exchange rate changes, net		**11,298**	(9,744)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,345,283**	1,169,750
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	28	**1,345,283**	1,169,750

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	**478,506**	–
Total non-current assets		**478,506**	–
CURRENT ASSETS			
Due from subsidiaries	20	**1,739,940**	1,094,701
Other receivables		**5,000**	728
Cash and cash equivalents	28	**6,960**	361,931
Restricted deposits received from rights issue excess application		**–**	1,604,495
Total current assets		**1,751,900**	3,061,855
CURRENT LIABILITIES			
Trade payables	31	**406**	2,021
Due to subsidiaries		**105,072**	104,691
Other payables and accruals		**8,372**	8,673
Other payable arising from rights issue excess application		**–**	1,604,495
Total current liabilities		**113,850**	1,719,880
NET CURRENT ASSETS		**1,638,050**	1,341,975
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,116,556**	1,341,975
NON-CURRENT LIABILITIES			
Other payable arising from rights issue		**–**	357,812
Total non-current liabilities		**–**	357,812
Net assets		**2,116,556**	984,163
EQUITY			
Issued capital	37	**1,097,528**	715,624
Shares held for Share Award Scheme	39	**(11,032)**	(27,784)
Reserves	40(b)	**845,255**	258,753
Proposed final dividend	14	**184,805**	37,570
Total equity		**2,116,556**	984,163

LI Dongsheng
Director

GUO Aiping
Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Room 1910-12A, Tower 3, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

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

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Group's forward contracts, forward options and interest rate swap, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries and the Share Award Scheme Trust, a controlled special purpose entity, are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2010 (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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

3. 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of Amendment the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), HKFRS 2 Amendments, amendments to HKFRS 8, HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*.

(c) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that segment assets and liabilities need only to be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. Upon the adoption of the amendment, the Group no longer discloses segment asset information as it is not currently reviewed by the chief operating decision maker.

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(c) (continued)

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases in the Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in the Mainland China remained as operating leases. As the Group has no land lease in Hong Kong, the Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* does not have any financial impact on the Group.

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

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyper- inflation and Removal of Fixed Dates for First-time Adopters*[4]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes – *Deferred Tax: Recovery of Underlying Assets*[5]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

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

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

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

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

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

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

(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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

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

Associates

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

Buildings	2.17% to 5.00%
Plant and machinery	10.00% to 20.00%
Furniture, fixtures, office and research and development equipment	20.00% to 33.00%
Motor vehicles	16.67% to 20.00%

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

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

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

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

5. 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 amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the 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.

Golf club membership

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

Computer software

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

Intellectual property

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

Research and development costs

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the period consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the leasee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, 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, pledged deposits, trade and notes receivables, deposits and other receivables, due from related companies, and derivative financial instruments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by 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 other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in administrative expenses.

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

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

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. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

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

Impairment of financial assets

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

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

Available-for-sale financial investments

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

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

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

5. 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 the group of similar financial assets) is derecognised when:

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

- 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.

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 notes payables, other payables and accruals, due to related companies, derivative financial instruments and interest bearing loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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

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

Loans and borrowings

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

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

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 the income statement.

Offsetting of financial instruments

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

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

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

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

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

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

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

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

Fair value hedges

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

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

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

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible 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 cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

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

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

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

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

- where the deferred tax liability arises from the initial recognition of 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 a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) value-added service income, upon provision of the relevant services; and

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

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date.

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 38 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 the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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.

Shares held for the Share Award Scheme

As disclosed in note 39 to the financial statements, the Group has set up a trust (the “Trust”) for the share award schemes, where the Trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held for the Share Award Scheme” and deducted from the Group’s equity.

Central Pension Scheme

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Mandatory Provident Fund

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

Retirement indemnities

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

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

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

Borrowing costs

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

Dividends

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

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

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in 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 the income statement.

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

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2010 was approximately HK$309,116,000 (31 December 2009: HK$220,211,000). More details are set out in note 16 to the financial statements.

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

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

Warranty claims

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

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

Were claims costs to differ by 10% from management's estimates, it is estimated that the warranty provisions would be approximately HK$12.8 million higher or lower than expected in 2011.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was approximately HK$146,927,000 (31 December 2009: HK$146,856,000). More details are given in note 19 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategy. The carrying value of deferred tax assets at 31 December 2010 was HK$31,689,000 (31 December 2009: HK$17,276,000). The amount of unrecognised tax losses at 31 December 2010 was HK$1,110,691,000 (31 December 2009: HK$2,228,811,000). Further details are contained in note 36 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 5 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2010, the best estimate of the carrying amount of capitalised development costs was HK$59,688,000 (31 December 2009: HK$44,171,000). More details are given in note 18 to the financial statements.

7. OPERATING SEGMENT INFORMATION

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

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

Management monitors the results of the Group's 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 from operations, except for research and development costs, changes in fair value of the derivative component of convertible bonds and interest on convertible bonds.

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.

The geographical information of non-current assets is not reported as the necessary information is not available and the cost to develop it would be excessive.

7. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	8,206,701	493,993	8,700,694
Intersegment sales	479,920	6,616,211	7,096,131
	8,686,621	7,110,204	15,796,825
Reconciliation:			
Elimination of intersegment sales			(7,096,131)
Revenue from operations			8,700,694
Segment results	1,062,970	39,084	1,102,054
Reconciliation:			
Research and development costs			(357,179)
Profit before tax			744,875
Other segment information:			
Share of profits and losses of:			
Associates	–	(1,388)	(1,388)
A jointly-controlled entity	–	1,130	1,130
Impairment losses recognised in the income statement	2,912	476	3,388
Depreciation of property, plant and equipment	53,699	2,859	56,558
Amortisation of computer software and intellectual property	3,219	52	3,271
Other non-cash expenses	50,361	–	50,361
Prepaid land lease recognised	685	48	733
Capital expenditure *	66,264	111,144	177,408
Investments in associates	–	7,323	7,323

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

7. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009 (restated)

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	3,873,503	487,383	4,360,886
Intersegment sales	367,574	3,426,243	3,793,817
	4,241,077	3,913,626	8,154,703
Reconciliation:			
Elimination of intersegment sales			(3,793,817)
Revenue from operations			4,360,886
Segment results	350,908	(4,840)	346,068
Reconciliation:			
Research and development costs			(247,113)
Changes in fair value of the derivative component of convertible bonds			(58,037)
Interest on convertible bonds			(6,839)
Profit before tax			34,079
Other segment information:			
Share of profits and losses of:			
Associates	–	(1,455)	(1,455)
A jointly-controlled entity	–	59	59
Impairment losses recognised in the income statement	8,657	12,451	21,108
Depreciation of property, plant and equipment	55,009	5,208	60,217
Amortisation of computer software and intellectual property	3,657	196	3,853
Other non-cash expenses	8,173	–	8,173
Prepaid land lease recognised	644	89	733
Capital expenditure *	9,618	19,924	29,542
Investments in associates	–	8,801	8,801
Investment in a jointly-controlled entity	–	3,992	3,992

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

7. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009 (restated) (continued)

Revenue of approximately HK$937,152,000 (2009: HK$174,575,000) was derived from sales by the overseas segment to a single customer.

8. REVENUE, OTHER INCOME AND GAINS

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

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

	2010	2009
	HK$'000	HK$'000
Revenue		
Sale of mobile phones and related components	**8,700,694**	4,360,886
Other income and gains		
Interest income	**82,672**	39,357
Subsidy income	**10,650**	5,882
VAT refunds*	**59,905**	43,855
Value-added service income	**832**	3,909
Exchange gains, net	**115,795**	19,930
Including: exchange (losses)/gains on derivative financial instruments	**(12,010)**	3,982
Gain on disposal of prepaid land lease payment	**1,907**	–
Gain on repurchase of convertible bonds	**–**	44,614
Others	**6,418**	12,417
	278,179	169,964

* During the years ended 31 December 2010 and 2009, JRD Communication (Shenzhen) Limited ("JRD Shenzhen"), being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT at a rate of 17%.

9. PROFIT BEFORE TAX

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

	Notes	**2010 HK$'000**	2009 HK$'000
Cost of inventories sold		**6,752,342**	3,412,196
Depreciation	16	**56,558**	60,217
Prepaid land lease recognised	17	**733**	733
Amortisation of computer software and intellectual property	18	**3,271**	3,853
Research and development costs:			
Deferred expenditure amortised	18	**110,645**	72,674
Current year expenditure		**246,534**	174,439
		357,179	247,113
Brand management fee/TCL Brand Common Fund/ALCATEL brand licence fee		**24,391**	784
Minimum lease payments under operating leases in respect of land and buildings		**33,903**	26,431
Auditors' remuneration		**6,386**	6,601
Employee benefit expense (including directors' remuneration (note 11)):			
Salaries and wages		**596,026**	396,287
Equity-settled expenses:			
Share options		**33,244**	3,767
Share Award Scheme		**17,117**	4,406
Pension scheme contributions:			
The contribution scheme		**44,288**	29,584
The pension schemes	34	**1,084**	(1,036)
		691,759	433,008
Impairment loss of trade receivables	25	**2,839**	4,008
Impairment loss of other receivables	27	**549**	4,676
Impairment loss of an investment in an associate		**–**	12,424
Product warranty provisions	33	**155,950**	87,711
Loss on disposal of items of property, plant and equipment		**613**	480
Gain on disposal of prepaid land lease payment		**(1,907)**	–

10. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**60,920**	28,875
Interest on discounted notes and factored trade receivables*	**2,056**	10,264
Finance costs excluding interest on convertible bonds	**62,976**	39,139
Interest on convertible bonds**	**–**	6,839
Total finance costs	**62,976**	45,978

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

** According to HKAS 39 *Financial Instruments: Recognition and Measurement*, interest of convertible bonds was calculated based on the effective interest rate. The effective interest rate of the convertible bonds was approximately 15% whilst the yield to maturity is 5.709%. The Group had repurchased all outstanding convertible bonds in 2009.

11. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2010	2009
	HK$'000	HK$'000
Fees	**1,256**	1,296
Other emoluments:		
Salaries, allowances and benefits in kind	**2,824**	4,756
Equity-settled share option and Share Award Scheme expense	**14,634**	1,306
Pension scheme contributions	**116**	54
	18,830	7,412

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

During the year ended 31 December 2005, 2006 and 2007, certain directors were granted share options. During the year ended 31 December 2010, certain directors were granted share options and awarded shares. The grant of share option and awarded shares were in respect of their services to the Group, under the share option scheme and the share award scheme of the Company, further details of which are set out in notes 38 and 39 respectively to the financial statements. The fair value of such options and awarded shares, which have been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent Non-Executive Directors

2010	**Fees HK$'000**	**Equity-settled share option expense HK$'000**	**Total remuneration HK$'000**
Mr. Shi Cuiming	**180**	**219**	**399**
Mr. Liu Chung Laung	**180**	**219**	**399**
Mr. Lau Siu Ki	**180**	**219**	**399**
Mr. Look Andrew (appointed on 20 September 2010)	**51**	**319**	**370**
	591	**976**	**1,567**

2009	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
Mr. Shi Cuiming	180	–	180
Mr. Liu Chung Laung	180	–	180
Mr. Lau Siu Ki	180	–	180
	540	–	540

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

(b) Executive Directors, Non-Executive Directors and the five highest paid employees

2010	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option and Share Award Scheme expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:					
Mr. Li Dongsheng	130	–	3,645	7	3,782
Mr. Guo Aiping	130	2,824	7,927	109	10,990
Mr. Yang Xinping Charles (redesignated on 11 January 2010)	4	–	–	–	4
Non-Executive Directors:					
Mr. Yang Xinping Charles (redesignated on 11 January 2010 and retired on 10 May 2010)	41	–	–	–	41
Mr. Bo Lianming	120	–	713	–	833
Mr. Huang Xubin	120	–	703	–	823
Ms. Xu Fang	120	–	670	–	790
	665	2,824	13,658	116	17,263

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

(b) Executive Directors, Non-Executive Directors and the five highest paid employees (continued)

2009

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

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

The five highest paid employees during the year included one (2009: two) director, details of whose remuneration are set out above.

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

(b) Executive Directors, Non-Executive Directors and the five highest paid employees (continued)

Details of the remuneration of the remaining four (2009: three) non-director, highest paid employees for the year are as follows:

	2010 HK$'000	2009 HK$'000
Salaries, allowances and benefits in kind	**7,708**	5,773
Equity-settled share option and Share Award Scheme expense	**14,392**	454
Pension scheme contributions	**172**	12
	22,272	6,239

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

	Number of non-director, highest paid employees 2010	2009
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	–
HK$5,500,001 to HK$6,000,000	**2**	–
HK$6,000,001 to HK$6,500,000	**1**	–
	4	3

12. INCOME TAX EXPENSE

Group

	2010	2009
	HK$'000	HK$'000
Current		
Charge for the year		
The PRC	**10,699**	31
Mexico	**9,722**	–
Russia	**2,175**	–
Brazil	**1,114**	–
The United States	**132**	–
Underprovision in prior years	**24,437**	1,180
	48,279	1,211
Deferred (note 36)	**(5,174)**	9,863
Tax charge for the year	**43,105**	11,074

No Hong Kong profits tax has been provided (2009: Nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates.

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

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

12. INCOME TAX EXPENSE (continued)

According to the Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Shenzhen, a subsidiary of the Company in the PRC, is eligible for a “two-year exemption and three-year half reduction” tax holiday starting from 2006 being a newly established high technology software enterprise. The applicable PRC corporate income tax rate of JRD Shenzhen was 11% for the year 2010 (2009: 10%). Profits tax arising from JRD Shenzhen has been provided in Mainland China as taxable income arose during the year.

TCT SAS, a subsidiary of the Company in France, was subject to corporate income tax at a rate of 33.33% in 2010 and 2009. No French profits tax has been provided during the year (2009: Nil) since TCT SAS has available tax losses brought forward from prior years to offset the assessable profit arising in France during the year.

Since 2008, TCT Mobile SA DE CV, a subsidiary of the Company in Mexico, was subject to Business Flat Tax Law (“IETU”) and income tax (“ISR”). IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenue, deductions and certain tax credits are determined based on cash flows generated starting from 1 January 2008. The tax rates of IETU are 17% for the year 2009, and 17.5% for the year 2010. ISR is calculated as a certain percentage of net tax income which is determined based on all revenues minus expenses (deductions) as defined by Income Tax Law. The ISR rate is 30% for the year 2010 (2009: 28%), and will remain at 30% in 2011 and 2012. In all case, the payment of IETU is required only to the extent that it exceeds the ISR for the same period. In the current year, Mexico ISR has been provided (2009: Nil) since taxable income arose in Mexico and IETU did not exceed the ISR.

During the years ended 31 December 2010 and 2009, TCT Mobile-Telefones LTDA, a subsidiary of the Company in Brazil, was subject to corporate income tax at a rate of 25% and social contribution tax at a rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. Brazilian profits tax has been provided during the year (2009:Nil) since taxable income arose in Brazil.

TMC Rus Limited Liability Company, a new subsidiary of the Company was set up in Russia in year 2010, is subject to corporate income tax at a rate of 20% for the year ended 31 December 2010. Russian profits tax has been provided during the year as taxable income arose in Russia.

12. INCOME TAX EXPENSE (continued)

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

	2010 **HK$'000**	**%**	2009 HK$'000	%
Profit before tax	**744,875**		34,079	
Tax at the applicable rates	**239,446**	**32.1**	35,107	103.0
Lower tax rates for specific provinces or enacted by local authorities	**(75,393)**	**(10.1)**	(21,447)	(62.9)
Adjustment in respect of current tax of previous periods	**24,437**	**3.3**	1,180	3.5
Income not subject to tax	**(74,860)**	**(10.1)**	(42,306)	(124.1)
Expenses not deductible for tax	**82,442**	**11.1**	71,638	210.2
Tax effect of expenses that are entitled to additional deduction	**(9,877)**	**(1.3)**	–	–
Tax losses utilised	**(151,763)**	**(20.4)**	(65,225)	(191.4)
Tax losses not recognised	**8,673**	**1.2**	32,127	94.2
Tax charge at the Group's effective rate	**43,105**	**5.8**	11,074	32.5

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of approximately HK$797,896,000 (2009: HK$39,560,000) which has been dealt with in the financial statements of the Company (note 40(b)).

14. DIVIDENDS

	2010 HK$'000	2009 HK$'000
Declared special – 8 HK cents (2009: Nil) per ordinary share	**86,985**	–
Proposed final – 16.8 HK cents (2009: 3.5 HK cents) per ordinary share	**184,805**	37,570
	271,790	37,570

The proposed final dividend for the year is to be paid out of the share premium account and subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

	2010 HK$'000	2009 HK$'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**701,884**	23,005

Shares	**Number of shares**	
	2010	2009
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,084,935,282**	916,201,795
Effect of dilution – weighted average number of ordinary shares: Assumed issuance upon the exercise of share options	**29,408,177**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**1,114,343,459**	916,201,795

The calculation of the diluted earnings per share for the year ended 31 December 2010 and 2009 has taken into account the share options outstanding during the year. Since the exercise price of certain share options during the year was lower than the fair market value of the ordinary shares, the share options outstanding during the year had a dilutive effect on the Company. While the exercise price of share options during the year ended 31 December 2009 was higher than the fair market value of the ordinary shares, the share options outstanding during the year ended 31 December 2009 had an anti-dilutive effect on the Company.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machineries HK$'000	Furniture, fixtures, office equipments and research and development equipments HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010						
At 31 December 2009 and at 1 January 2010:						
Cost	90,172	544,131	142,745	8,234	717	785,999
Accumulated depreciation and impairment	(18,919)	(439,251)	(101,739)	(5,879)	–	(565,788)
Net carrying amount	71,253	104,880	41,006	2,355	717	220,211
At 1 January 2010, net of accumulated depreciation and impairment	71,253	104,880	41,006	2,355	717	220,211
Additions	8,522	96,360	24,612	6,329	3,675	139,498
Acquisition of a subsidiary (note 41)	–	–	266	–	–	266
Disposals	–	(12,776)	(655)	(355)	–	(13,786)
Depreciation provided during the year (note 9)	(3,396)	(39,047)	(12,513)	(1,602)	–	(56,558)
Transfer	124	1,793	1,793	–	(3,710)	–
Exchange realignments	2,833	14,703	1,776	147	26	19,485
At 31 December 2010, net of accumulated depreciation and impairment	79,336	165,913	56,285	6,874	708	309,116
At 31 December 2010:						
Cost	102,429	620,580	156,817	12,962	708	893,496
Accumulated depreciation and impairment	(23,093)	(454,667)	(100,532)	(6,088)	–	(584,380)
Net carrying amount	79,336	165,913	56,285	6,874	708	309,116

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings HK$'000	Plant and machineries HK$'000	Furniture, fixtures, office equipments and research and development equipments HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009						
At at 1 January 2009:						
Cost	83,526	542,871	138,617	9,224	4,345	778,583
Accumulated depreciation and impairment	(15,922)	(404,467)	(91,918)	(4,668)	–	(516,975)
Net carrying amount	67,604	138,404	46,699	4,556	4,345	261,608
At 1 January 2009, net of accumulated depreciation and impairment	67,604	138,404	46,699	4,556	4,345	261,608
Additions	1,716	9,941	10,005	1,487	2,359	25,508
Disposals	(901)	(3,094)	(1,139)	(1,882)	–	(7,016)
Depreciation provided during the year	(3,186)	(40,481)	(14,690)	(1,860)	–	(60,217)
Transfer	5,955	–	30	–	(5,985)	–
Exchange realignments	65	110	101	54	(2)	328
At 31 December 2009, net of accumulated depreciation and impairment	71,253	104,880	41,006	2,355	717	220,211
At 31 December 2009:						
Cost	90,172	544,131	142,745	8,234	717	785,999
Accumulated depreciation and impairment	(18,919)	(439,251)	(101,739)	(5,879)	–	(565,788)
Net carrying amount	71,253	104,880	41,006	2,355	717	220,211

The net carrying amounts of the Group's property, plant and equipment held under finance leases included in the plant and machinery as at 31 December 2010 amounted to approximately HK$12,926,000 (31 December 2009: HK$14,140,000).

Certificates of ownership in respect of certain buildings of the Group located in Mainland China with net carrying amounts of approximately HK$22,101,000 (31 December 2009: HK$14,183,000), have not yet been issued by the relevant PRC authorities. The Group is in process of obtaining these certificates.

17. PREPAID LAND LEASE PAYMENTS

	Group 2010 HK$'000	Group 2009 HK$'000
Carrying amount at 1 January	**15,671**	16,404
Disposals	**(1,789)**	–
Recognised during the year (note 9)	**(733)**	(733)
Carrying amount at 31 December	**13,149**	15,671

As at 31 December 2010, the Group's land and buildings situated in Mainland China are held under long-term leases.

18. INTANGIBLE ASSETS

Group	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2010					
Cost at 1 January 2010, net of accumulated amortisation	44,171	8,145	430	2,130	54,876
Additions	126,862	3,441	34,469	–	164,772
Amortisation provided during the year	(110,645)	(2,910)	(361)	–	(113,916)
Exchange realignment	(700)	161	892	35	388
At 31 December 2010	59,688	8,837	35,430	2,165	106,120
At 31 December 2010:					
Cost	342,020	25,429	37,443	2,165	407,057
Accumulated amortisation	(282,332)	(16,592)	(2,013)	–	(300,937)
Net carrying amount	59,688	8,837	35,430	2,165	106,120

18. INTANGIBLE ASSETS (continued)

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

19. GOODWILL

Group

	2010 HK$'000	2009 HK$'000
Cost at 1 January	**146,856**	146,856
Acquisition of a subsidiary (note 41)	**71**	–
Cost at 31 December	**146,927**	146,856
At 31 December:		
Cost and carrying amount	**146,927**	146,856

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

19. GOODWILL (continued)

The recoverable amount of the research and development of mobile handsets cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2009: 6%) and cash flows within the five-year period are extrapolated using growth rates of sales volume.

Key assumptions were used in the value in use calculation of research and development of the mobile handsets cash-generating units for 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

(b) Sales volume of mobile handsets increased by 24% for the year 2011, 20% for years 2012 and 2013, and 5% for years 2014 and 2015.

(c) Expenses growth rate are 22%, 22%, 22%, 3% and 3% for years of 2011, 2012, 2013, 2014 and 2015, respectively.

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

(e) JRD Shenzhen is qualified as a “high technology software enterprise”. Thus, it is subject to corporate income tax at a rate of 15% for year 2011 and onward.

(f) No dividend will be paid from years 2011 to 2015.

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

(h) JRD Shenzhen is entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17% up to year 2015.

20. INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Due from subsidiaries	**1,739,940**	1,259,672
Capital contribution in respect of employee share-based compensation	**10,742**	–
Impairment	**(1,193,877)**	(1,826,612)
	2,218,446	1,094,701

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

The movements in the impairment are as follows:

	Company 2010 HK$'000	Company 2009 HK$'000
At 1 January	**1,826,612**	1,911,476
Impairment loss reversed	**(632,735)**	(84,864)
	1,193,877	1,826,612

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

20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Trading of mobile phone components
Huizhou TCL Mobile Communication Co., Ltd. (note (i))	The PRC/ Mainland China 29 March 1999	US$119,600,000	–	100%	Manufacture and sale of mobile phones
TCL Mobile Communication (Hohhot) Co., Ltd. (note (iii))	The PRC/ Mainland China 29 April 2002	RMB30,000,000	–	100%	Manufacture and sale of mobile phones
TCT Mobile Limited	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Sale of mobile phones
TCT SAS	France 1 January 2004	EUR23,031,072	–	100%	Development and distribution of mobile phones
TCT Mobile SA DE CV	Mexico 24 May 2004	US$4,300	–	100%	Distribution of mobile phones
TCL Mobile Solution Suzhou Limited	The PRC/ Mainland China 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile phones
TCT Mobile International Limited	Hong Kong 11 May 2005	HK$1	–	100%	Development and distribution of mobile phones
JRD Communication Inc. (note (ii))	British Virgin Islands 8 September 2005	HK$24,000,000	100%	–	Investment holding company
JRD Communication (Hong Kong) Limited (note (ii))	Hong Kong 3 April 2006	HK$10,000	–	100%	Software development for mobile handsets

20. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ establishment and operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest		Principal activities
			Direct	Indirect	
JRD Shenzhen (notes (i)&(ii))	The PRC/ Mainland China 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets
"TMC Rus" Limited Liability Company	Russia 8 April 2010	RUB10,000	–	100%	Distribution of mobile phones
TCL Mobile North America Limited	Hong Kong 16 April 2010	HK$10,000	–	100%	Distribution of mobile phones

Notes:

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

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

(iii) This is a foreign-invested enterprise under 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.

21. INVESTMENTS IN ASSOCIATES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets	**7,323**	8,801
Goodwill on acquisition	**12,424**	12,424
	19,747	21,225
Impairment	**(12,424)**	(12,424)
	7,323	8,801

The Group's balances with the associates are disclosed in note 45(b) to the financial statements.

21. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

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

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

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

	2010 HK$'000	2009 HK$'000
Assets	**20,640**	24,953
Liabilities	**–**	(147)
Revenue	**1**	451
Losses for the year	**(3,912)**	(4,101)

22. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets	**–***	3,992

* On 30 June 2010, the Group acquired an additional 16% interest of the jointly-controlled entity at a consideration of RMB1,600,000 (equivalent to approximately HK$1,834,000), and increased the total percentage of interest in the acquiree from 50% to 66%. Consequently, the investee became a subsidiary of the Group hereafter. Further details are contained in note 41 to the financial statements.

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

	2010	2009
	HK$'000	HK$'000
Share of the jointly-controlled entity' assets and liabilities:		
Assets	**–**	5,189
Liabilities	**–**	(1,197)
Net assets	**–**	3,992
Share of the jointly-controlled entity' results:		
Revenue	**6,845**	2,251
Total expenses	**(5,715)**	(2,192)
Profit for the year	**1,130**	59

23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Unlisted equity investments, at cost	**20,245**	20,245

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

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

24. INVENTORIES

	Group 2010 HK$'000	2009 HK$'000
Raw materials	**538,686**	279,490
Work in progress	**5,642**	2,706
Finished goods	**301,683**	209,109
	846,011	491,305
Provision against inventory obsolescence and net realisable value	**(66,165)**	(43,124)
	779,846	448,181

25. TRADE RECEIVABLES

	Group 2010 HK$'000	2009 HK$'000
Trade receivables	**2,559,024**	1,327,335
Impairment	**(23,652)**	(23,266)
	2,535,372	1,304,069

The credit period is generally 30 to 90 days.

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

	Group 2010 HK$'000	2009 HK$'000
Within 3 months	**2,191,030**	1,140,539
4 to 12 months	**348,874**	145,671
Over 12 months	**19,120**	41,125
	2,559,024	1,327,335
Impairment	**(23,652)**	(23,266)
	2,535,372	1,304,069

25. TRADE RECEIVABLES (continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**23,266**	22,726
Charge for the year (note 9)	**2,839**	4,008
Amount written off as uncollectible	**(2,453)**	(3,468)
At 31 December	**23,652**	23,266

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately HK$23,652,000 (31 December 2009: HK$23,266,000) with a carrying amount before provision of approximately HK$26,876,000 (31 December 2009: HK$37,814,000). The individually impaired trade receivables relate to customers that were in financial difficulties. A major portion of the gross receivables of HK$2,559,024,000 is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**1,853,227**	949,869
Less than 1 month past due	**436,909**	224,467
1 to 3 months past due	**225,664**	95,896
4 to 12 months past due	**16,327**	11,152
Over 12 months past due	**21**	8,137
	2,532,148	1,289,521

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

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

26. FACTORED TRADE RECEIVABLES

At 31 December 2010, the Group factored trade receivables to banks on a recourse basis for cash. As the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated statement of financial position. Maturity dates range from 30 to 120 days. No impairment is made on the factored trade receivables.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Current	**31,198**	191,081
Within 1 month	**–**	31,142
1 to 2 months	**–**	2,000
	31,198	224,223

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group	
		2010	2009
	Note	**HK$'000**	HK$'000
Prepayments		**89,268**	34,944
Deposits and other receivables	(a)	**461,145**	263,593
		550,413	298,537
Impairment of other receivables	(a)	**(16,590)**	(16,041)
		533,823	282,496

The carrying amounts of the prepayments, deposits and other receivables approximate to their respective fair values.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

(a) The movements in provision for individually impaired other receivables are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**16,041**	11,768
Charge for the year (note 9)	**549**	4,676
Amount written off as uncollectible	**–**	(403)
At 31 December	**16,590**	16,041

The individually impaired other receivables relate to debtors 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 the balances.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**430,186**	247,014

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

28. PLEDGED DEPOSITS, AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,345,283**	1,169,750	**6,960**	361,931
Pledged deposits	**6,200,996**	1,187,336	**–**	–
	7,546,279	2,357,086	**6,960**	361,931
Less: Pledged deposits				
– for factored trade receivables	**24,552**	72,732	**–**	–
– for interest bearing bank borrowings, banking facilities and other financial instruments	**6,176,444**	1,114,604	**–**	–
Cash and cash equivalents	**1,345,283**	1,169,750	**6,960**	361,931

At the end of the reporting period, the cash and bank balances and pledged deposits of the Group denominated in Renminbi ("RMB") amounted to approximately HK$6,852,903,000 (31 December 2009: HK$1,334,341,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Included in the Group's cash and bank balances are deposits of approximately HK$639,185,000 (31 December 2009: HK$12,082,000) placed with TCL Group Finance Corporation Co. Ltd., a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.36% – 1.17% (2009: 0.36% – 1.17%) per annum, being the savings rate offered by the People's Bank of China.

29. INTEREST BEARING BANK AND OTHER BORROWINGS

Group

	2010		2009	
	Maturity (Year)	**HK$'000**	Maturity (Year)	HK$'000
Current				
Finance lease payable (note 30)	**2011**	**1,092**	2010	4,185
Bank borrowings secured*	**2011**	**6,486,854**	2010	1,456,411
		6,487,946		1,460,596
Non-current				
Finance lease payable (note 30)		**–**	2011	1,092
		6,487,946		1,461,688

* The Group's interest bearing bank borrowings are bank advances comprising (i) bank borrowings of approximately HK$6,037,289,000 (31 December 2009: HK$1,035,500,000) which are secured by the pledge of certain of the Group's time deposits; and (ii) bank borrowings of approximately HK$449,565,000 (31 December 2009: HK$420,911,000) which are guaranteed by the ultimate holding company.

The interest rate for bank borrowings secured and current portion of finance lease payable were 0.86% – 3.51% and 6.76% respectively (2009:0.86% – 5.31% and 6.76%) per annum.

HK$235,700,000 of bank borrowings secured was denominated in RMB (31 December 2009: HK$208,797,000) and others was denominated in US dollar.

30. FINANCE LEASE PAYABLE

The Group leases certain of its machinery for its production of mobile phones. This lease is classified as a finance lease and the lease would mature within one year.

As at 31 December 2010, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	Minimum lease payments 2010 HK$'000	Minimum lease payments 2009 HK$'000	Present value of minimum lease payments 2010 HK$'000	Present value of minimum lease payments 2009 HK$'000
Amounts payable:				
Within one year	**1,103**	4,413	**1,092**	4,185
In the second year	**–**	1,103	**–**	1,092
Total minimum finance lease payments	**1,103**	5,516	**1,092**	5,277
Future finance charges	**(11)**	(239)		
Total net finance lease payable	**1,092**	5,277		
Portion classified as current liabilities (note 29)	**(1,092)**	(4,185)		
Non-current portion (note 29)	**–**	1,092		

31. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade and notes payables as at the end of the reporting period, based on the invoice date, is analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 6 months	**1,828,660**	1,067,731	**59**	1,687
7 to 12 months	**4,868**	175	**–**	–
Over 1 year	**9,967**	5,858	**347**	334
	1,843,495	1,073,764	**406**	2,021

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

Certain notes payables are secured by the pledged deposits amounting to approximately HK$5,627,000 (31 December 2009: HK$3,565,000).

32. DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2010**		2009	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Forward currency contracts – EURO	**25,991**	**–**	7,572	–
Forward currency contracts – GBP	**1,668**	**–**	744	–
Forward currency contracts – RUB	**–**	**–**	40	–
Forward currency contracts – RMB deliverable forward and non-deliverable forward contracts	**125,145**	**124,042**	26,237	7,723
Interest rate swap – cash flow hedges	**18,601**	**5,062**	–	–
	171,405	**129,104**	34,593	7,723

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges

At 31 December 2010, the Group held forward currency contracts designated as hedges in respect of expected future sales to customers in Europe and America for which the Group has firm commitments.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Total fair value gains	**103,159**	16,115
Deferred tax on fair value gains	**(7,016)**	–
Reclassification from other comprehensive income and recognised in the income statement	**(44,341)**	(9,606)
Deferred tax on reclassification to profit or loss	**2,092**	–
Net gains on cash flow hedges	**53,894**	6,509

Interest Rate Swap – cash flow hedges

At 31 December 2010, the Group held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

	Group	
	2010	2009
	HK$'000	HK$'000
Total fair value loss	**14,931**	–
Reclassification from other comprehensive income and recognised in the income statement	**(8,972)**	–
Net loss on cash flow hedges	**5,959**	–

For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Losses of changes in the fair value of non-hedging currency derivatives amounting to approximately HK$58,200,000 were charged to the income statement during the year 2010 (2009: losses of approximately HK$50,187,000). The maturity dates of derivative financial instruments are within one year.

33. PROVISION FOR WARRANTIES

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

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**63,390**	59,406
Additional provision (note 9)	**155,950**	87,711
Amount utilised during the year	**(90,569)**	(84,945)
Exchange realignment	**(1,224)**	1,218
At 31 December	**127,547**	63,390

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

34. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the pension plan at 31 December 2010 amounted to approximately HK$2,351,000 (31 December 2009: HK$1,351,000).

	Group	
	2010	2009
	HK$'000	HK$'000
Retirement indemnities		
Present value of fund obligation	**2,351**	1,351

34. RETIREMENT INDEMNITIES (continued)

Movements in retirement indemnities are as follows:

	Group 2010 HK$'000	2009 HK$'000
At 1 January	**1,351**	2,367
Benefit expenses recognised/(reversed) in the income statement (note 9)	**1,084**	(1,036)
Exchange realignment	**(84)**	20
At 31 December	**2,351**	1,351

The Group does not have any unfunded obligations.

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

	Group 2010	2009
Discount rate	**5.0%**	5.0%
Future salary increase rate per annum	**5.0%**	3.0%

35. LONG SERVICE MEDALS

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

36. DEFERRED TAX

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

Deferred tax assets

Group

	Tax losses HK$'000	Promotion and accruals HK$'000	Product warranty HK$'000	Bad debt provision HK$'000	Provision of inventories HK$'000	Trade receivables to be recovered in future year HK$'000	Unrealised profit HK$'000	Total HK$'000
At 1 January 2010	11,011	4,567	1,890	1,282	348	(1,822)	–	17,276
Deferred tax credited/(charged) to the income statement during the year (note 12)	(10,750)	4,751	2,759	(635)	–	1,969	16,033	14,127
Exchange realignment	(261)	490	116	68	20	(147)	–	286
Gross deferred tax assets recognised in the consolidated statement of financial position at 31 December 2010	–	9,808	4,765	715	368	–	16,033	31,689

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

36. DEFERRED TAX (continued)

Deferred tax assets (continued)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of approximately HK$5,767,000 (31 December 2009: HK$968,686,000), expiring 5 years after occurrence, which were related to the subsidiaries in Mainland China and approximately HK$1,104,924,000 (31 December 2009: HK$1,260,125,000) with infinite expiration, which were related to a subsidiary in France as at 31 December 2010 carried forward for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax liabilities

Group

	Project development cost HK$'000	Cash flow hedging HK$'000	Total HK$'000
At 1 January 2009, 31 December 2009 and 1 January 2010	–	–	–
Deferred tax charged to the income statement during the year (note 12)	8,953	–	8,953
Deferred tax charged to the statement of comprehensive income during the year	–	4,924	4,924
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2010	8,953	4,924	13,877

As at 31 December 2010, the Group had not recognised any deferred income tax liabilities in respect of tax obligations arising from the future distribution of undistributed profit of such subsidiaries, as the Group was exercising control over the dividend policy of such subsidiaries and was in the opinion that distribution in the foreseeable future of profit generated during the relevant period was not probable. As at 31 December 2010, the total amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$903,746,000 (31 December 2009: HK$274,593,000).

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

37. SHARE CAPITAL

	Number of shares	Issued share capital HK$'000	Share premium HK$'000
Authorised:			
Ordinary shares of HK$0.1 each at 1 January 2009	20,000,000,000	2,000,000	
Share consolidation	(18,000,000,000)	–	
Ordinary shares of HK$1 each at 31 December 2009, 1 January 2010 and 31 December 2010	2,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
Ordinary shares of HK$0.1 each at 1 January 2009	7,150,498,709	715,050	1,575,709
Share consolidation	(6,435,448,839)	–	–
Share options exercised	574,000	574	1,280
Reclassification of lapsed share options	–	–	20,995
Reclassification of vested shares	–	–	(9,413)
Proposed 2009 final dividend	–	–	(37,570)
At 31 December 2009 and at 1 January 2010	715,623,870	715,624	1,551,001
Share options exercised (a) (note 38)	24,092,191	24,092	57,629
Shares allotted and issued pursuant to the completion of rights issue offer (b)	357,811,935	357,812	(4,323)
Reclassification of lapsed share options	–	–	1,236
Reclassification of vested shares	–	–	(746)
Transfer of share premium to retained profits	–	–	(1,100,000)
2009 final dividend declared	–	–	(405)
2010 special dividend declared	–	–	(86,985)
Proposed 2010 final dividend	–	–	(184,805)
At 31 December 2010	1,097,527,996	1,097,528	232,602

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

(a) 24,092,191 share options were exercised at subscription prices ranging from HK$1.648 to HK$3.020 per share, resulting in the issue of 24,092,191 shares of HK$1 each for a total cash consideration of HK$55,607,000.

(b) To meet the requirement of ODM business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK$1 per rights share and under the term of one rights share for every two existing shares. The rights issue was completed on 4 January 2010 and 357,811,935 shares were issued for a total consideration of approximately HK$353,489,000 after deduction of related issuance expenses of approximately HK$4,323,000.

38. SHARE OPTION SCHEME

The Company has adopted a share option scheme for the purpose of providing incentives rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include employees (including Executive and Non-Executive Directors), advisers, consultants, agents, contractors, clients, suppliers and any other person(s) whom the Board, in its sole discretion, considers has contributed or may contribute to the Group. The share option scheme became effective on 13 September 2004 (the "Share Option Scheme") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Apart from the Share Option Scheme, the Company has no other share option scheme currently in force.

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the Independent Non-Executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-Executive Director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of: (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

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

In order to meet the requirement of business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK$1.00 per rights share and under the term of one rights share for every two existing shares (the "Rights Issue"). The Rights Issue was completed on 4 January 2010 and 357,811,935 shares were issued. As a result of the Rights Issue, adjustments were made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme adopted by the Company and the supplementary guidance issued by the Stock Exchange. Further details of the said adjustments were set out in the announcement of the Company dated 6 January 2010.

38. SHARE OPTION SCHEME (continued)

During the reporting period, the Company granted a total of 23,600,000, 14,700,000 and 600,000 share options of the Company under the Share Option Scheme adopted by the Company on 13 September 2004, to certain individuals respectively on 11 March 2010, 25 May 2010 and 20 September 2010 respectively. Further details of the said granted share options were set out in the announcement of the Company dated 15 March 2010, 25 May 2010 and 20 September 2010, respectively.

At the end of the reporting period, the Company had 80,919,224 outstanding share options under the Share Option Scheme. Further details of the Share Option Scheme are as follows:

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period:

	Number of share options										
Name or category of participant	At 1 January 2010	Rights issue adjustment (Note ix)	At 6 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant	Exercise period (both dates inclusive) (Notes i, ii, iii, iv, v, vi, vii and viii)	Exercise price per share (HK$) (Note ix)	Closing price immediately before the date of grant per share (HK$) (Note x)
Directors											
Mr. LI Dongsheng	545,454	152,182	697,636	–	–	–	697,636	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	500,000	139,500	639,500	–	–	–	639,500	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	500,001	139,499	639,500	–	–	–	639,500	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	1,105,749	308,503	1,414,252	–	–	–	1,414,252	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	5,000,000	–	–	5,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	2,651,204	739,684	3,390,888	5,000,000	–	–	8,390,888				
Mr. GUO Aiping	103,636	28,914	132,550	–	–	–	132,550	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	355,000	99,045	454,045	–	–	–	454,045	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	650,000	181,350	831,350	–	–	–	831,350	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	965,018	269,240	1,234,258	–	–	–	1,234,258	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,980,000	–	–	1,980,000	11 March 2010	11 December 2010 to 10 March 2016	3.020	2.68
	2,073,654	578,549	2,652,203	1,980,000	–	–	4,632,203				
Mr. BO Lianming	81,816	22,829	104,645	–	(104,000)	–	645	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	562,932	157,055	719,987	–	–	–	719,987	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	644,748	179,884	824,632	1,000,000	(104,000)	–	1,720,632				

38. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting year (continued):

	Number of share options										
Name or category of participant	At 1 January 2010	Rights issue adjustment (Note ix)	At 6 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant	Exercise period (both dates inclusive) (Notes i, ii, iii, iv, v, vi, vii and viii)	Exercise Price per share (HK$) (Note ix)	Closing price immediately before the date of grant per share (HK$) (Note x)
Mr. HUANG Xubin	65,454	18,261	83,715	–	–	–	83,715	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	80,002	22,318	102,320	–	–	–	102,320	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	273,498	76,308	349,806	–	–	–	349,806	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	418,954	116,887	535,841	1,000,000	–	–	1,535,841				
Ms. XU Fang	8,727	2,434	11,161	–	–	–	11,161	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	73,000	20,367	93,367	–	–	–	93,367	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	1,000,000	–	–	1,000,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	81,727	22,801	104,528	1,000,000	–	–	1,104,528				
Mr. LAU Siu Ki	32,727	9,130	41,857	–	(41,857)	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	80,000	22,320	102,320	–	(102,320)	–	–	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	–	–	–	300,000	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	112,727	31,450	144,177	300,000	(144,177)	–	300,000				
Mr. SHI Cuiming	32,727	9,130	41,857	–	(41,857)	–	–	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	–	–	–	300,000	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	32,727	9,130	41,857	300,000	(41,857)	–	300,000				
Mr. LOOK Andrew (Note viii)	–	–	–	600,000	–	–	600,000	20 September 2010	20 June 2011 to 19 September 2016	4.580	4.38
	–	–	–	600,000	–	–	600,000				

38. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Share Option Scheme of the Company during the reporting period (continued):

	Number of share options										
Name or category of participant	At 1 January 2010	Rights issue adjustment (Note ix)	At 6 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant	Exercise period (both dates inclusive) (Notes i, ii, iii, iv, v, vi, vii and viii)	Exercise price per share (HK$) (Note ix)	Closing price immediately before the date of grant per share (HK$) (Note x)
Mr. LIU Chung Laung	–	–	–	300,000	–	–	300,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
	–	–	–	300,000	–	–	300,000				
Sub-Total	6,015,741	1,678,385	7,694,126	11,480,000	(290,034)	–	18,884,092				
Employees and those who have contributed or may contribute to the Group	5,695,690	1,580,554	7,276,244	–	(3,987,118)	(529,494)	2,759,632	31 May 2005	1 March 2006 to 30 May 2011	2.973	3.20
	6,236,900	1,740,092	7,976,992	–	(3,044,699)	–	4,932,293	16 January 2006	17 July 2006 to 15 January 2012	1.648	1.72
	10,633,800	2,966,828	13,600,628	–	(4,513,261)	(44,765)	9,042,602	30 June 2006	1 April 2007 to 30 June 2012	1.813	1.78
	25,084,180	6,894,942	31,979,122	–	(12,043,080)	(675,771)	19,260,271	5 July 2007	5 April 2008 to 4 July 2013	2.423	2.42
	–	–	–	21,620,000	(213,999)	(1,165,667)	20,240,334	11 March 2010	11 December 2010 to 10 March 2016	3.020	2.68
	–	–	–	5,800,000	–	–	5,800,000	25 May 2010	25 February 2011 to 24 May 2016	3.462	3.26
Sub-Total	47,650,570	13,182,416	60,832,986	27,420,000	(23,802,157)	(2,415,697)	62,035,132				
Total	53,666,311	14,860,801	68,527,112	38,900,000	(24,092,191)	(2,415,697)	80,919,224				

Notes:

i. During the reporting period, the directors of the Company have resolved to extend the option periods of the outstanding options granted by the Company on 31 May 2005, 16 January 2006, 30 June 2006 and 5 July 2007 to a period of 6 years from the option grant dates. As a result of this, the expiry dates of the said share options were extended, and the new expiry dates are 30 May 2011, 15 January 2012, 30 June 2012, and 4 July 2013 respectively.

ii. The share options granted on 31 May 2005 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 May 2011. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.

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

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

38. SHARE OPTION SCHEME (continued)

Notes (continued):

v. The share options granted on 5 July 2007 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 4 July 2013. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.

vi. On 11 March 2010, a total of 23,600,000 share options under the Share Option Scheme were granted by the Company with the exercise price of HK$3.02 per share. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 10 March 2016. One-third of these share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant. Further details of the said share options were set out in the announcement of the Company dated 15 March 2010.

vii. On 25 May 2010, a total of 14,700,000 share options under the Share Option Scheme were granted by the Company with the exercise price of HK$3.462 per share. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 24 May 2016. Among the options granted above, a total of 8,900,000 shares options were granted to the directors of the Company. One-third of the said share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant. The remaining 5,800,000 share options were granted to “Employees and those who have contributed or may contribute to the Group”, and will all be exercisable after the expiry of 9 months from the date of grant. Further details of the said share options were set out in the announcement of the Company dated 25 May 2010.

viii. On 20 September 2010, Mr. LOOK Andrew was appointed as an Independent Non-Executive Director of the Company, and a total of 600,000 share options under the Share Option Scheme were granted to him by the Company with the exercise price of HK$4.58 per share. The share options are exercisable from the commencement of the exercise period until the expiry date of the share options which is 19 September 2016. One-third of the said share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant. Further details of the said share options were set out in the announcement of the Company dated 20 September 2010.

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

x. The respective closing price immediately before the date of grant was adjusted as a result of the Rights Issue.

xi. The weighted average share price at the date of exercise for share options exercised during the reporting period was HK$4.95 per share. (2009: HK$2.04)

38. SHARE OPTION SCHEME (continued)

Notes (continued):

xii. The fair value of the options granted during the reporting period totalled approximately HK$51,171,000. The following assumptions were used to derive the fair value, using a binomial model:

Options granted on 31 May 2005

	At grant date	Modification on 3 July 2007	Modification on 11 March 2010
(i) Exercise period	1 March 2006 to 30 November 2008	1 March 2006 to 30 May 2010	1 March 2006 to 30 May 2011
(ii) Expected volatility	50% per annum	57% per annum	86.43% per annum
(iii) Estimated average life	2.89 years	1.27 years	1.22 years
(iv) Average risk-free interest rate	3.13% per annum	4.383% per annum	0.31% per annum
(v) Early exercise assumption	When the share price is at least 200% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	1% per annum	1% per annum	0% per annum
(vii) Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter	30% per annum for the first year after the grant date and 25% per annum thereafter	N/A

Options granted on 16 January 2006

	At grant date	Modification on 30 June 2006		Modification on 3 July 2007		Modification on 11 March 2010
(i) Exercise period	17 October 2006 to 15 July 2009	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2012
(ii) Expected volatility	50% per annum	50% per annum	55% per annum	39% per annum	38% per annum	91.75% per annum
(iii) Estimated average life	1.72 years	1.25 years	2.46 years	1.08 years	1.13 years	1.85 years
(iv) Average risk-free interest rate	3.66% per annum	4.48% per annum	4.56% per annum	4.44% per annum	4.44% per annum	0.56% per annum
(v) Early exercise assumption	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	0% per annum
(vii) Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter	20% per annum for the first year after the grant date and 15% per annum thereafter		30% per annum for the first year after the grant date and 25% per annum thereafter		N/A

38. SHARE OPTION SCHEME (continued)

Notes (continued):

xii. (continued)

Options granted on 30 June 2006

	At grant date			Modification on 3 July 2007			Modification on 11 March 2010
(i) Exercise period	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010	1 April 2007 to 30 June 2008	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2012
(ii) Expected volatility	55% per annum	55% per annum	50% per annum	39% per annum	39% per annum	39% per annum	85.38% per annum
(iii) Estimated average life	2.87 years	3.22 years	1.64 years	1.15 years	1.15 years	1.81 years	2.31 years
(iv) Average risk-free interest rate	4.59% per annum	4.61% per annum	4.50% per annum	4.48% per annum	4.48% per annum	4.48% per annum	0.72% per annum
(v) Early exercise assumption	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	1% per annum	0% per annum
(vii) Estimated rate of leaving service	20% per annum for the first year after the grant date and 15% per annum thereafter			30% per annum for the first year after the grant date and 25% per annum thereafter			N/A

Options granted on 5 July 2007

	At grant date	Modification on 11 March 2010
(i) Exercise period	5 April 2008 to 4 July 2012	5 April 2008 to 4 July 2013
(ii) Expected volatility	41% per annum	77.56% per annum
(iii) Estimated average life	1.16 years	3.32 years
(iv) Average risk-free interest rate	4.60% per annum	1.08% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	1% per annum	0% per annum
(vii) Estimated rate of leaving service	30% per annum for the first year after the grant date and 25% per annum thereafter	N/A

Options granted on 11 March 2010

	At grant date
(i) Exercise period	11 December 2010 to 10 March 2016
(ii) Expected volatility	69.69% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.98% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	0% per annum
(vii) Estimated rate of leaving service	0% per annum

38. SHARE OPTION SCHEME (continued)

Notes (continued):

xii. (continued)

Options granted on 25 May 2010

	At grant date
(i) Exercise period	25 February 2011 to 24 May 2016
(ii) Expected volatility	70.05% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.82% per annum
(v) Early exercise assumption	When the share price is at least 150% of the exercise price
(vi) Expected dividend yield	0% per annum
(vii) Estimated rate of leaving service	0% per annum

Options granted on 20 September 2010

	At grant date
(i) Exercise period	20 June 2011 to 19 September 2016
(ii) Expected volatility	69.31% per annum
(iii) Estimated average life	6 years
(iv) Average risk-free interest rate	1.47% per annum
(v) Early exercise assumption	When the share price is at least 280% of the exercise price
(vi) Expected dividend yield	2.51% per annum
(vii) Estimated rate of leaving service	0% per annum

The volatility rate of the share price of the Company was determined with reference to the historical volatilities of the share prices of the Company as extracted from Bloomberg.

BMI Appraisals Limited has been appointed to perform the valuation on the seven batches of share options granted on 31 May 2005, 16 January 2006, 30 June 2006, 5 July 2007, 11 March 2010, 25 May 2010 and 20 September 2010 respectively.

39. SHARE AWARD SCHEMES

After the Share Award Scheme A adopted by the Company on 3 July 2007, the Board resolved to adopt another share award scheme, the Share Award Scheme B, on 11 March 2008. The Share Award Scheme B aims to provide incentives to employees and to retain and encourage employees for the continual operation and development of the Group, pursuant to which existing shares will be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme B. The Board further resolved to award 120 million shares to approximately 100 selected employees to recognise their contribution to the Group and to retain them by providing incentives.

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

During the year ended 31 December 2008, the trustee purchased 105,898,000 shares at a total cost (including related transaction costs) of approximately HK$33,469,000.

During the year ended 31 December 2009, the trustee transferred a total of 30,450,000 shares (that is, 3,045,000 shares after the ten-to-one Share Consolidation effective on 23 January 2009) to the awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK$9,624,000.

On 11 March 2010, the Board approved the grant of 6,300,000 shares of the Company to be awarded to designated employees under the Share Award Scheme B, which would be transferred to the employees by the trustee at nil consideration upon vesting between 10 September 2010 and 31 December 2012. Among the shares awarded mentioned above, a total of 2,250,000 shares of the Company were awarded to a Director during the reporting period.

During the reporting period, the trustee transferred a total of 5,300,000 shares to the awardees upon vesting of those shares awarded under the Share Award Scheme B. The total cost of the related vested shares was HK$16,752,000.

39. SHARE AWARD SCHEME (continued)

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

Share Award Scheme B

	31 December 2010 Number of awarded shares
For the shares granted on 3 January 2009	
Outstanding as at 1 January 2010	1,000,000
Lapsed during the reporting period	(1,000,000)
Outstanding as at 31 December 2010	–
For the shares granted on 11 March 2010	
Outstanding as at 1 January 2010	–
Granted on 11 March 2010	6,300,000
Vested on 10 September 2010	(4,800,000)
Vested on 31 December 2010	(500,000)
Lapsed during the reporting period	–
Outstanding as at 31 December 2010	1,000,000

The remaining vesting period of the awarded shares outstanding as at 31 December 2010 is as follows:

	31 December 2010	
	Remaining vesting period (both dates inclusive)	Number of awarded shares
For the shares granted on 11 March 2010		
Fair value of HK$3.02 per share	1 January 2011 to 31 December 2012	1,000,000

40. 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 pages 65 and 66 of the financial statements.

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

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

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

(b) Company

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

40. RESERVES (continued)

(b) Company (continued)

	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded share reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2010	669,907	1,544,810	(27,784)	388	50,759	(2,007,111)	37,570	268,539
Profit for the year	-	-	-	-	-	797,896	-	797,896
Total comprehensive income for the year	-	-	-	-	-	797,896	-	797,896
Issue of shares and exercise of share options	-	53,306	-	-	(26,114)	-	-	27,192
Reclassification of lapsed share options	-	1,236	-	-	(1,236)	-	-	-
Equity-settled share option arrangements	-	-	-	-	33,244	-	-	33,244
Share Award Scheme arrangements	-	-	-	17,117	-	-	-	17,117
Reclassification of vested shares	-	(746)	16,752	(16,006)	-	-	-	-
Transfer of share premium to accumulated losses	-	(1,100,000)	-	-	-	1,100,000	-	-
2009 final dividend declared	-	(405)	-	-	-	-	(37,570)	(37,975)
2010 special dividend declared	-	(86,985)	-	-	-	-	-	(86,985)
Proposed 2010 final dividend	-	(184,805)	-	-	-	-	184,805	-
At 31 December 2010	669,907*	226,411*	(11,032)	1,499*	56,653*	(109,215)*	184,805	1,019,028

* These reserve accounts comprise the reserves of approximately HK$845,255,000 (31 December 2009: HK$258,753,000) in the statement of financial position.

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

40. RESERVES (continued)

(b) Company (continued)

As at 31 December 2010, before payment of the proposed final dividend for the year ended 31 December 2010, the Company had an aggregate of HK$411,216,000 standing to credit of its share premium account and HK$669,907,000 standing to the credit of its contributed surplus account. As the aforesaid contributed surplus represents premium arising on an issue of shares of the Company, the entire amount of HK$669,907,000 standing to the credit of the contributed surplus account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After taking into account the proposed dividend, the amount of the premium account would be HK$226,411,000, and after the transfer of the contributed surplus as aforesaid, the amount would become HK$896,318,000.

41. BUSINESS COMBINATION

On 30 June 2010, the Group acquired an additional 16% interest in a jointly-controlled entity, Cellutel Corporation ("Cellutel"), from Mr. Wang Taixing. Consequently, the Group's share of interest in Cellutel increased to 66%. Cellutel is engaged in the manufacture and sale of communication products, computers and internet equipment and accessories. The purchase consideration for the acquisition was in the form of cash of RMB1,600,000 (equivalent to approximately HK$1,834,000) and paid on 13 July 2010.

41. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Cellutel as at the date of consolidation were as follows:

	Notes	Fair value recognised on acquisition HK$'000
Property, plant and equipment	16	266
Inventories		2,466
Trade receivables		1,102
Prepayments, deposit and other receivables		1,914
Cash and bank balances		9,320
Trade payables		(2,903)
Accruals and other payables		(1,143)
Non-controlling interest		(3,748)
Total identifiable net assets at fair value		7,274
Goodwill on acquisition	19	71
		7,345
Satisfied by		
Cash		1,834
Reclassification from an investment in a jointly-controlled entity to an investment in a subsidiary		5,511
		7,345

41. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(1,834)
Cash and bank balances acquired	9,320
Net inflow of cash and cash equivalents included in cash flows from investing activities	7,486

Since its acquisition, Cellutel contributed HK$27,976,000 to the Group's turnover and HK$327,000 of losses to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$8,714,383,000 and HK$702,912,000 respectively.

42. CONTINGENT LIABILITIES

As at 31 December 2010, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**3,149,030**	455,098

As at 31 December 2010, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$2,942,463,000 (31 December 2009: HK$302,583,000).

43. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**26,673**	18,589
In the second to fifth years, inclusive	**35,207**	28,295
Over five years	**2,234**	7,209
	64,114	54,093

44. CAPITAL COMMITMENTS

As at 31 December 2010, the capital commitments are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Property, plant and equipment for		
Contracted but not provided	**4,177**	–

45. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	2010 HK$'000	2009 HK$'000
Transactions with the ultimate holding company		
Brand name management fee/TCL Brand Common Fund	**1,508**	784
Interest income	**1,086**	–
Interest expenses	**1,748**	2,493
Purchases of raw materials*	**581,612**	560,256
Rental income	**–**	5
Transactions with fellow subsidiaries		
Purchases of raw materials*	**361,380**	95,186
Short-term loan obtained	**235,700**	226,960
Interest income	**1,271**	793
Interest expenses	**1,149**	2,866
Rental income	**–**	187
Rental charges	**7,773**	5,359
Provision of TD-SCDMA technology	**–**	4,735
Supply of raw materials	**–**	26
Sales of spare parts	**4,313**	5,038
Purchase of products	**–**	5,217
Purchase of property, plant and equipment	**7,683**	922
Value-added service	**399**	51
Processing cost	**1,620**	–
Purchase of intangible assets	**17,235**	–
Transactions with a jointly-controlled entity		
Sales of products	**10,331**	3,596
Interest expenses	**–**	1

* The purchases of raw materials with the related parties were made according to prices mutually agreed between two parties.

45. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

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

Group	Due from related companies		Due to related companies	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ultimate holding company	**11,785**	11,360	**21,377**	99,746
Fellow subsidiaries	**2,257**	944	**144,199**	38,500
Associates	**–**	–	**3,465**	–
Jointly-controlled entity	**–**	1,985	**–**	–
	14,042	14,289	**169,041**	138,246

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

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

	Year ended 31 December	
	2010	2009
	HK$'000	HK$'000
TCL Corporation*	**211,205**	11,365
TCL Display Technology (Huizhou) Company Limited	**7,552**	–
Huizhou Cellutel Communication Limited	**6,114**	1,985
Shenzhen TCL Industrial Institute Limited	**865**	–
Koyoo Online Co. Ltd	**782**	–

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

45. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2010 HK$'000	2009 HK$'000
Short-term employee benefits	12,582	12,981
Post-employment benefits	324	139
Equity-settled share option and Share Award Scheme expense	24,357	1,708
Total compensation paid to key management personnel	37,263	14,828

Further details of directors' emoluments are included in note 11 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

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

2010

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments (note 23)	–	–	20,245	20,245
Trade receivables (note 25)	–	2,535,372	–	2,535,372
Factored trade receivables (note 26)	–	31,198	–	31,198
Notes receivable	–	7,091	–	7,091
Financial assets included in prepayments, deposits and other receivables	–	315,065	–	315,065
Due from related companies (note 45(b))	–	14,042	–	14,042
Derivative financial instruments (note 32)	171,405	–	–	171,405
Pledged deposits (note 28)	–	6,200,996	–	6,200,996
Cash and cash equivalents (note 28)	–	1,345,283	–	1,345,283
	171,405	10,449,047	20,245	10,640,697

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**
Interest bearing bank and other borrowings (note 29)	**–**	**6,487,946**	**6,487,946**
Trade and notes payables (note 31)	**–**	**1,843,495**	**1,843,495**
Bank advances on factored trade receivables	**–**	**31,198**	**31,198**
Derivative financial instruments (note 32)	**129,104**	**–**	**129,104**
Financial liabilities included in other payables and accruals	**–**	**521,953**	**521,953**
Due to related companies (note 45(b))	**–**	**169,041**	**169,041**
	129,104	**9,053,633**	**9,182,737**

2009

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available–for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments (note 23)	–	–	20,245	20,245
Trade receivables (note 25)	–	1,304,069	–	1,304,069
Factored trade receivables (note 26)	–	224,223	–	224,223
Notes receivable	–	4,142	–	4,142
Financial assets included in prepayments, deposits and other receivables	–	129,176	–	129,176
Due from related companies (note 45(b))	–	14,289	–	14,289
Derivative financial instruments (note 32)	34,593	–	–	34,593
Pledged deposits (note 28)	–	1,187,336	–	1,187,336
Restricted deposits received from rights issue excess application	–	1,604,495	–	1,604,495
Cash and cash equivalents (note 28)	–	1,169,750	–	1,169,750
	34,593	5,637,480	20,245	5,692,318

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2009

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Interest bearing bank and other borrowings (note 29)	–	1,461,688	1,461,688
Trade and notes payables (note 31)	–	1,073,764	1,073,764
Bank advances on factored trade receivables	–	224,223	224,223
Derivative financial instruments (note 32)	7,723	–	7,723
Financial liabilities included in other payables and accruals	–	176,017	176,017
Other payable arising from rights issue excess application	–	1,604,495	1,604,495
Due to related companies (note 45(b))	–	138,246	138,246
	7,723	4,678,433	4,686,156

Financial assets

	Company	
	2010	2009
	Loans and receivables HK$'000	Loans and receivables HK$'000
Due from subsidiaries (note 20)	**1,739,940**	1,094,701
Financial assets included in other receivables	**5,000**	–
Restricted deposits received from rights issue excess application	**–**	1,604,495
Cash and cash equivalents (note 28)	**6,960**	361,931
	1,751,900	3,061,127

46. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Company	
	2010	2009
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	HK$'000
Trade payables	**406**	2,021
Due to subsidiaries (note 20)	**105,072**	104,691
Financial liabilities included in other payables and accruals	**8,372**	8,673
Other payable arising from rights issue excess application	**–**	1,604,495
	113,850	1,719,880

47. FAIR VALUE AND FAIR VALUE HIERARCHY

Group	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade receivables	**2,535,372**	1,304,069	**2,535,372**	1,304,069
Factored trade receivables	**31,198**	224,223	**31,198**	224,223
Notes receivable	**7,091**	4,142	**7,091**	4,142
Financial assets included in prepayments, deposits and other receivables	**315,065**	129,176	**315,065**	129,176
Due from related companies	**14,042**	14,289	**14,042**	14,289
Derivative financial instruments	**171,405**	34,593	**171,405**	34,593
Restricted deposits received from rights issue excess application	**–**	1,604,495	**–**	1,604,495
Pledged deposits	**6,200,996**	1,187,336	**6,200,996**	1,187,336
Cash and cash equivalents	**1,345,283**	1,169,750	**1,345,283**	1,169,750
	10,620,452	5,672,073	**10,620,452**	5,672,073
Financial liabilities				
Interest bearing bank and other borrowings	**6,487,946**	1,461,688	**6,487,946**	1,461,688
Trade and notes payables	**1,843,495**	1,073,764	**1,843,495**	1,073,764
Bank advances on factored trade receivables	**31,198**	224,223	**31,198**	224,223
Derivative financial instruments	**129,104**	7,723	**129,104**	7,723
Financial liabilities included in other payables and accruals	**521,953**	176,017	**521,953**	176,017
Other payable arising from rights issue excess application	**–**	1,604,495	**–**	1,604,495
Due to related companies	**169,041**	138,246	**169,041**	138,246
	9,182,737	4,686,156	**9,182,737**	4,686,156

47. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Due from subsidiaries	**1,739,940**	1,094,701	**1,739,940**	1,094,701
Financial assets included in other receivables	**5,000**	–	**5,000**	–
Restricted deposits received from rights issue excess application	**–**	1,604,495	**–**	1,604,495
Cash and cash equivalents	**6,960**	361,931	**6,960**	361,931
	1,751,900	3,061,127	**1,751,900**	3,061,127
Financial liabilities				
Trade payables	**406**	2,021	**406**	2,021
Due to subsidiaries	**105,072**	104,691	**105,072**	104,691
Financial liabilities included in other payables and accruals	**8,372**	8,673	**8,372**	8,673
Other payable arising from rights issue excess application	**–**	1,604,495	**–**	1,604,495
	113,850	1,719,880	**113,850**	1,719,880

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, trade receivables, notes receivable, factored trade receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related companies, restricted deposits and other payable related to right issue approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the Group's finance lease payable, interest bearing bank and other borrowings, bank advances on factored trade receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

47. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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

The Group enters into EURO, GBP and RUB forward contracts, RUB put option contracts and interest rate swap transactions with international banks with A and B credit ratings with Moody's. The RMB deliverable forward contracts involving derivative financial instruments are mainly with the biggest national banks in Mainland China. The RMB non-deliverable forward contracts are mainly with international banks with A and B credit ratings with Moody's. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

As at 31 December 2010, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

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

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

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

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

As at 31 December 2010, the financial instruments measured at fair value held by the Group only include the derivative financial instruments which belong to level 2.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans with a combination of fixed and floating rate debts. The Group also held interest rate swap contracts designated as hedges in respect of expected interest payments for floating rate debts incurred by the Group.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar interest rate of the Group's bank loans and interest rate swap, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
		HK$'000	HK$'000
2010			
US dollar	**25**	**(797)**	**3,545**
US dollar	**(25)**	**797**	**(4,249)**
2009			
US dollar	25	(607)	–
US dollar	(25)	607	–

* Excluding retained profits/accumulated losses

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

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

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
		HK$'000	HK$'000
2010			
If Hong Kong dollar weakens against Euro	**(5%)**	**44,631**	**(46,174)**
If Hong Kong dollar strengthens against Euro	**5%**	**(44,631)**	**46,174**
If RMB weakens against US dollar	**(5%)**	**(38,312)**	**(67,375)**
If RMB strengthens against US dollar	**5%**	**38,312**	**67,375**
2009			
If Hong Kong dollar weakens against Euro	(5%)	10,055	–
If Hong Kong dollar strengthens against Euro	5%	(10,055)	–
If RMB weakens against US dollar	(5%)	(37,033)	–
If RMB dollar strengthens against US dollar	5%	37,033	–

* Excluding retained profits/accumulated losses

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

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 interest-bearing bank and other loans. The maturity profiles of the Group's borrowings are disclosed in notes 29, 30, and 32 to the financial statements.

As at 31 December 2010, HK$14,835,000 (31 December 2009: HK$6,033,000) and HK$2,550,852,000 (31 December 2009: 3,210,712,000) of other financial liabilities excluding interest-bearing bank and other borrowings and derivative financial instruments would be on demand and matured within one year respectively.

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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

Group	**2010** **HK$'000**	2009 HK$'000
Interest bearing bank and other borrowings	**6,487,946**	1,461,688
Bank advances on factored trade receivables	**31,198**	224,223
Trade and notes payables	**1,843,495**	1,073,764
Other payables and accruals	**1,214,315**	737,149
Other payable arising from rights issue excess application	**–**	1,604,495
Due to related companies	**169,041**	138,246
Less: Cash and cash equivalents	**1,345,283**	1,169,750
Restricted deposits received from rights issue excess application	**–**	1,604,495
Pledged deposits	**6,200,996**	1,187,336
Net debt	**2,199,716**	1,277,984
Equity attributable to owners of the parent	**2,218,446**	1,094,701
Equity attributable to owners of the parent and net debt	**4,418,162**	2,372,685
Gearing ratio	**50%**	54%

49. EVENTS AFTER THE REPORTING PERIOD

(1) Amendments to the Share Award Scheme ("the Scheme")

Reference is made to the announcement of the Company dated 11 March 2008 and the circular of the Company dated 20 March 2008, both with respect to, inter alia, adoption of the Scheme.

Under the Scheme, the restricted shares can only be purchased on the market. For the purpose of providing flexibility for the Company to diversify the methods of obtaining shares awarded to the employees under the Scheme, the Board has proposed to amend the Scheme such that the shares to be awarded to the selected employees can cover the existing shares to be purchased by the trustee as well as the new shares to be issued by the Company.

Other principal proposed amendments include altering the names of the Scheme and the shares to be awarded under the Scheme, the Scheme limit, the power to award returned shares and deleting a rule such that no awarded shares shall be vested upon termination of the Scheme.

Further details were set out in the announcement of the Company dated 26 January 2011.

(2) The acquisition of a company

On 8 February 2011, the Board of Directors of the Company approved to acquire a 100% interest in a company. The aggregate purchase consideration of no more than HK$140,000,000 for the acquisition was in the form of cash.

Because the approval of acquisition of this company was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

50. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation for better presentation of the financial statements.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 25 February 2011.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**8,700,694**	4,360,886	4,538,281	4,971,081	5,501,627
Cost of sales	**(6,752,342)**	(3,412,196)	(3,726,663)	(4,123,975)	(4,709,736)
Gross profit	**1,948,352**	948,690	811,618	847,106	791,891
Other revenue and gains	**278,179**	169,964	273,391	70,722	142,981
Research and development expenses	**(357,179)**	(247,113)	(262,924)	(173,343)	(177,168)
Selling and distribution costs	**(619,627)**	(366,084)	(389,388)	(336,954)	(371,228)
Administrative expenses	**(436,299)**	(340,366)	(393,191)	(330,643)	(300,420)
Other operating expenses	**(5,317)**	(25,601)	(1,588)	(1,510)	(15,308)
Finance costs excluding interest on convertible bonds	**(62,976)**	(39,139)	(28,393)	(16,185)	(29,118)
Share of losses of associates	**(1,388)**	(1,455)	–	(16,943)	(9,498)
Share of profit/(loss) of a jointly-controlled entity	**1,130**	59	(1,399)	–	–
	744,875	98,955	8,126	42,250	32,132
Changes in fair value of the derivative component of convertible bonds	**–**	(58,037)	68,078	(10,041)	–
Interest on convertible bonds	**–**	(6,839)	(39,959)	(22,747)	–
Profit before tax	**744,875**	34,079	36,245	9,462	32,132
Income tax expense	**(43,105)**	(11,074)	(7,754)	23,601	(16,709)
Profit for the year	**701,770**	23,005	28,491	33,063	15,423
ATTRIBUTABLE TO:					
Owner of the parent	**701,884**	23,005	28,491	33,063	15,423
Non-controlling interests	**(114)**	–	–	–	–
	701,770	23,005	28,491	33,063	15,423

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**12,253,648**	6,765,926	4,564,436	4,375,663	3,686,012
Total liabilities	**(10,031,464)**	(5,671,225)	(3,499,633)	(3,323,240)	(3,014,025)
Non-controlling interests	**(3,738)**	–	–	–	–
	2,218,446	1,094,701	1,064,803	1,052,423	671,987

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