TCL Communication Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 02618)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

Audited results for the year ended 31 December

	2010 (HK$'000)	2009 (HK$'000)	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%
EBITDA before effect of convertible bonds*	**785,008**	162,807	+382%
Net profit before effect of convertible bonds*	**701,770**	87,881	+699%
Changes in fair value of the derivative component of convertible bonds	**-**	(58,037)	N/A
Interest on convertible bonds	**-**	(6,839)	N/A
Profit attributable to owners of the parent	**701,884**	23,005	+2,951%
Basic earnings per share (HK cents)	**64.69**	2.51	+2,477%
Proposed final dividend per share (HK cents)	**16.80**	3.50	+380%

* The effect of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.

OPERATIONAL HIGHLIGHTS

- Sales volume of handsets and accessories in 2010 totaled 36.2 million units, up 125% year-on-year (YOY); fourth quarter sales 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 Original Design Manufacture ("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.

The board of directors (the "Board") of TCL Communication Technology Holdings Limited ("TCT" or the ''Company'') announced the audited consolidated results and financial position of the Company and its subsidiaries (the ''Group'') for the year ended 31 December 2010, with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended 31 December 2010 (Audited) HK$'000**	Year ended 31 December 2009 (Audited) HK$'000	**Three months ended 31 December 2010 (Unaudited) HK$'000**	Three months ended 31 December 2009 (Unaudited) HK$'000
REVENUE	4	**8,700,694**	4,360,886	**3,093,261**	1,960,311
Cost of sales		**(6,752,342)**	(3,412,196)	**(2,391,638)**	(1,444,658)
Gross profit		**1,948,352**	948,690	**701,623**	515,653
Other income and gains	4	**278,179**	169,964	**101,433**	15,478
Research and development costs		**(357,179)**	(247,113)	**(145,008)**	(53,761)
Selling and distribution costs		**(619,627)**	(366,084)	**(260,136)**	(156,238)
Administrative expenses		**(436,299)**	(340,366)	**(129,955)**	(166,669)
Other operating expenses		**(5,317)**	(25,601)	**(1,391)**	(23,161)
Finance costs excluding interest on convertible bonds	6	**(62,976)**	(39,139)	**(16,811)**	(6,664)
Share of losses of associates		**(1,388)**	(1,455)	**(352)**	(353)
Share of profit of a jointly-controlled entity		**1,130**	59	**-**	284
		744,875	98,955	**249,403**	124,569
Changes in fair value of the derivative component of convertible bonds		**-**	(58,037)	**-**	-
Interest on convertible bonds	6	**-**	(6,839)	**-**	-
PROFIT BEFORE TAX	5	**744,875**	34,079	**249,403**	124,569
Income tax expense	7	**(43,105)**	(11,074)	**659**	(11,043)
PROFIT FOR THE YEAR		**701,770**	23,005	**250,062**	113,526

CONSOLIDATED INCOME STATEMENT (continued)

	Note	**Year ended 31 December**		**Three months ended 31 December**	
		2010	2009	**2010**	2009
		(Audited)	(Audited)	**(Unaudited)**	(Unaudited)
		HK$'000	HK$'000	**HK$'000**	HK$'000
Attributable to:					
Owners of the parent		**701,884**	23,005	**250,098**	113,526
Non-controlling interests		**(114)**	-	**(36)**	-
		701,770	23,005	**250,062**	113,526
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	10				
Basic		**64.69**	2.51	**23.05**	12.39
Diluted		**62.99**	N/A	**22.44**	N/A

Details of the dividends proposed and declared for the year are disclosed in note 9 of this announcement.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2010	2009
	(Audited)	(Audited)
	HK$'000	HK$'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	**88,228**	16,115
Reclassification adjustments for gains included in the consolidated income statement	**(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

	Notes	**31 December 2010 (Audited) HK$'000**	31 December 2009 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**309,116**	220,211
Prepaid land lease payments		**13,149**	15,671
Intangible assets		**106,120**	54,876
Deferred tax assets		**31,689**	17,276
Goodwill		**146,927**	146,856
Investments in associates		**7,323**	8,801
Investment in a jointly-controlled entity		**-**	3,992
Available-for-sale investments		**20,245**	20,245
Other non-current assets		**-**	152
Total non-current assets		**634,569**	488,080
CURRENT ASSETS			
Inventories		**779,846**	448,181
Trade receivables	11	**2,535,372**	1,304,069
Factored trade receivables		**31,198**	224,223
Notes receivable		**7,091**	4,142
Prepayments, deposits and other receivables		**533,823**	282,496
Due from related companies		**14,042**	14,289
Tax recoverable		**23**	4,272
Derivative financial instruments		**171,405**	34,593
Pledged deposits		**6,200,996**	1,187,336
Restricted deposits received from rights issue excess application		**-**	1,604,495
Cash and cash equivalents		**1,345,283**	1,169,750
Total current assets		**11,619,079**	6,277,846
CURRENT LIABILITIES			
Interest bearing bank and other borrowings		**6,487,946**	1,460,596
Trade and notes payables	12	**1,843,495**	1,073,764
Bank advances on factored trade receivables		**31,198**	224,223
Derivative financial instruments		**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		**127,547**	63,390
Due to related companies		**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION **(continued)**

	Note	**31 December 2010 (Audited) HK$'000**	31 December 2009 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,239,687**	1,455,915
NON-CURRENT LIABILITIES			
Retirement indemnities		**2,351**	1,351
Long service medals		**1,275**	959
Other payable arising from rights issue		**-**	357,812
Interest bearing bank and other borrowings		**-**	1,092
Deferred tax liabilities		**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	13	**1,097,528**	715,624
Shares held for Share Award Scheme		**(11,032)**	(27,784)
Reserves		**947,145**	369,291
Proposed final dividend		**184,805**	37,570
		2,218,446	1,094,701
Non-controlling interests		**3,738**	-
Total equity		**2,222,184**	1,094,701

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

<u>Basis of consolidation</u>
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.

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.

Notes: (continued)

1. BASIS OF PREPARATION (continued)

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*.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (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 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.

Notes: (continued)

2. 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.

- 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.

Notes: (continued)

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(c) (continued)

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.

3. OPERATING SEGMENT INFORMATION

Management considers the performance of the business in the 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.

Notes: (continued)

3. 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:

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
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.

Notes: (continued)

3. 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:

	Overseas HK$'000	Mainland China HK$'000	Total HK$'000
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.

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

Notes: (continued)

4. 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 HK$'000	2009 HK$'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%.

Notes: (continued)

5. PROFIT BEFORE TAX

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

	2010 **HK$'000**	2009 HK$'000
Cost of inventories sold	**6,752,342**	3,412,196
Depreciation	**56,558**	60,217
Prepaid land lease recognised	**733**	733
Amortisation of computer software and intellectual property	**3,271**	3,853
Research and development costs:		
Deferred expenditure amortised	**110,645**	72,674
Current year expenditure	**246,534**	174,439
	357,179	247,113
Impairment loss of trade receivables	**2,839**	4,008
Impairment loss of other receivables	**549**	4,676
Impairment loss of an investment in an associate	**-**	12,424
Product warranty provisions	**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)**	-

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2010 **HK$'000**	2009 HK$'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.

Notes: (continued)

7. 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	**(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 the Mainland China as taxable income arose during the year.

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

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 subsidiaries of JRD Shenzhen has been provided in the Mainland China as taxable income arose during the year.

Notes: (continued)

7. INCOME TAX EXPENSE (continued)

TCT Mobile Europe 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 Mobile Europe 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"). IETTU 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.

8. 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.

Notes: (continued)

9. 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.

10. 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

	Number of shares	
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.

Notes: (continued)

11. TRADE RECEIVABLES

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

	2010	2009
	HK$'000	HK$'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

The credit period is generally 30 to 90 days.

12. 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:

	2010	2009
	HK$'000	HK$'000
Within 6 months	**1,828,660**	1,067,731
7 to 12 months	**4,868**	175
Over 1 year	**9,967**	5,858
	1,843,495	1,073,764

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 (2009: HK$3,565,000).

Notes: (continued)

13. 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)	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.

Notes: (continued)

14. EVENTS AFTER THE REPORTING YEAR

(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 the Company approved to acquire a 100% interest in a company. The aggregate purchase consideration of no more than HK$140 million for the acquisition was in the form of cash.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 measures 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 to 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

<u>Sales volume breakdown by market (continued)</u>

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

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 establish 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Sales volume breakdown by market (continued)

The PRC (continued)

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” 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 series, 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 recognitions 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 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 announcement.

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 announcement.

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

<u>Financial Review</u> (continued)

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).

<u>Financial Review</u> (continued)

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.

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2010, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 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 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 year under review.

FINAL DIVIDEND

The Board has resolved to declare the payment of a final dividend of 16.8 HK cents (2009: 3.5 HK cents) per ordinary share after review year. The final dividend will be paid out of the share premium account to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on 9 May 2011. The final dividend will be paid on or about 31 May 2011, subject to the Company's shareholders' approval at the AGM to be held on 9 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 May 2011 to 9 May 2011 for the purpose of determining the entitlements of the shareholders to the final dividend and to attend and vote at the AGM. No transfer of the shares may be registered during the period. In order to qualify for the aforesaid entitlements, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on 4 May 2011, Wednesday.

AUDIT COMMITTEE

Mr. Look Andrew was appointed as an independent non-executive director of the Company on 20 September 2010. He has also been appointed as a member of the audit committee and the remuneration committee of the Company with effect from 20 September 2010.

The audited consolidated annual results for the year ended 31 December 2010 have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises four members including Mr. Lau Siu Ki (Chairman), Mr. Shi Cuiming and Mr. Look Andrew, independent non-executive Directors of the Company, and Mr. Bo Lianming, a non-executive Director of the Company.

On behalf of the Board

TCL Communication Technology Holdings Limited

Li Dongsheng

Chairman

Hong Kong

25 February 2011

As at the date of this announcement, the Board comprises Mr. Li Dongsheng and Mr. Guo Aiping, being the executive directors; Mr. Bo Lianming, Mr. Huang Xubin and Ms. Xu Fang, being the non-executive directors; Mr. Lau Siu Ki, Mr. Liu Chung Laung, Mr. Look Andrew and Mr. Shi Cuiming, being the independent non-executive directors.