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TCL Communication Technology Holdings Limited TCL 通訊科技控股有限公司

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

RESULTS ANNOUNCEMENT FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS			
<i>Unaudited results for the six months ended 30 June</i>			
	2009	2008	Change
	(HK\$ million)	(HK\$ million)	
Turnover	1,327	2,340	-43%
Gross Profit	197	438	-55%
E(L)BITDA before effect of convertible bonds*	(4)	61	N/A
Profit/(loss) before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds	(39)	16	N/A
Changes in fair value of the derivative component of convertible bonds	(58)	116	N/A
Interest on convertible bonds	(7)	(20)	-65%
Profit/(loss) Attributable to Equity Holders of the Parent	(104)	112	N/A
Basic Earnings/(loss) per share (HK cents) (as restated)	(14.60)	15.76	N/A

* Effect of convertible bonds represents changes in fair value of the derivative component of convertible bonds and interest on convertible bonds.

OPERATIONAL HIGHLIGHTS

- Total sales volume amounted to 5.1 million units in the first half of 2009, representing a decrease of 25% over the corresponding period in 2008.
- Sales volume in the second quarter this year showed significant recovery sign as compared to that in first quarter, with sales volume in June jumped 35% over the previous month.
- Before the impact of convertible bonds, the Group achieved a gain of HK\$2.9 million in the second quarter of 2009, as compared to a loss of HK\$42.4 million in the first quarter of 2009.
- Prompt response to the changes in market demand, application of effective measures to improve the operating conditions and establishment of a “3G + 4C” approach as the guidance for the Group's future business development.
- The Group is set to benefit from its strategy of expansion into the mid to high-end market, with a number of new models to be launched in the second half this year.
- The Group had successfully completed the buyback of the whole USD 45 million Convertible Bond at a favourable discount by using internal resource in order to reduce the finance cost and gearing ratio.

The board of directors (the “Board”) of TCL Communication Technology Holdings Limited (“TCT” or the “Company”) announced the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (the “Group”) for three months and six months ended 30 June 2009, with comparative figures for the same period last year as follows and these condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s Audit Committee:

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June 2009 (Unaudited) HK\$'000	Six months ended 30 June 2008 (Unaudited) HK\$'000	Three months ended 30 June 2009 (Unaudited) HK\$'000	Three months ended 30 June 2008 (Unaudited) HK\$'000
	Notes				
REVENUE	2	1,327,474	2,340,047	712,925	1,125,708
Cost of sales		(1,130,156)	(1,901,997)	(601,126)	(902,063)
Gross profit		197,318	438,050	111,799	223,645
Other income and gains	3	136,935	76,285	75,438	53,499
Research and development costs		(110,384)	(99,414)	(59,087)	(58,028)
Selling and distribution costs		(121,317)	(199,821)	(59,438)	(112,148)
Administrative expenses		(114,596)	(177,232)	(56,604)	(75,812)
Other operating expenses		(808)	(3,922)	(336)	(3,466)
Finance costs excluding interest on convertible bonds	5	(25,672)	(16,823)	(8,534)	(11,602)
Share of losses of an associate		(795)	-	(311)	-
Share of losses of a jointly controlled entity		(187)	(386)	(45)	(178)
		(39,506)	16,737	2,882	15,910
Changes in fair value of the derivative component of convertible bonds	11	(58,037)	115,708	(51,791)	86,290
Interest on convertible bonds	5	(6,839)	(20,161)	(2,122)	(10,212)
PROFIT/(LOSS) BEFORE TAX	4	(104,382)	112,284	(51,031)	91,988
Tax	6	(28)	(613)	(25)	(487)
PROFIT/(LOSS) FOR THE PERIOD		(104,410)	111,671	(51,056)	91,501
Attributable to:					
Equity holders of the parent		(104,410)	111,671	(51,056)	91,501
DIVIDENDS					
Interim	7	-	-	-	-
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) (as restated)	8				
Basic		(14.60)	15.76	(7.14)	12.91
Diluted		(14.60)	15.69	(7.14)	12.86

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2009 (Unaudited) HK\$'000	Six months ended 30 June 2008 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	<u>(104,410)</u>	<u>111,671</u>
Exchange differences on translation of foreign operations	(9,032)	69,682
Gain on cash flow hedges	<u>3,237</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(5,795)</u>	<u>69,682</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u><u>(110,205)</u></u>	<u><u>181,353</u></u>
Attributable to:		
Equity holders of the parent	<u><u>(110,205)</u></u>	<u><u>181,353</u></u>

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		233,916	261,608
Prepaid land lease payments		16,038	16,404
Intangible assets		53,836	49,690
Deferred tax assets		27,045	26,789
Goodwill		146,856	146,856
Available-for-sale investments		20,245	20,244
Interest in an associate		21,887	-
Interest in a jointly controlled entity		3,749	3,934
Other non-current assets		1,680	2,367
		<hr/>	<hr/>
Total non-current assets		525,252	527,892
CURRENT ASSETS			
Inventories		291,108	229,998
Trade receivables	9	644,421	836,819
Factored trade receivables		39,174	153,392
Notes receivable		14,957	16,958
Prepayments, deposits and other receivables		217,262	253,971
Due from related companies		15,878	17,376
Tax recoverable		2,904	29,347
Derivative financial instruments		104,858	143,802
Pledged deposits		1,099,866	1,670,499
Cash and cash equivalents		627,560	684,382
		<hr/>	<hr/>
Total current assets		3,057,988	4,036,544
CURRENT LIABILITIES			
Interest bearing bank and other borrowings		963,971	1,866,500
Trade and notes payables	10	468,519	590,654
Bank advances on factored trade receivables		39,174	153,392
Derivative financial instruments		36,867	68,897
Tax payable		424	440
Other payables and accruals		499,384	557,817
Provision for warranties		40,583	59,406
Due to related companies		566,906	51,804
		<hr/>	<hr/>
Total current liabilities		2,615,828	3,348,910
		<hr/>	<hr/>
NET CURRENT ASSETS		442,160	687,634
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		967,412	1,215,526

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>967,412</u>	<u>1,215,526</u>
NON-CURRENT LIABILITIES			
Retirement indemnities		2,756	2,367
Long service medals		1,032	1,030
Convertible bonds	11	-	142,058
Interest bearing bank and other borrowings		<u>3,062</u>	<u>5,268</u>
Total non-current liabilities		<u>6,850</u>	<u>150,723</u>
Net assets		<u>960,562</u>	<u>1,064,803</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	715,050	715,050
Shares held for Share Award Scheme		(42,148)	(47,823)
Reserves		<u>287,660</u>	<u>397,576</u>
Total equity		<u>960,562</u>	<u>1,064,803</u>

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2008, except for the following changes in accounting estimations and in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

Changes in accounting estimations

The Group has modified the depreciation treatment of certain fixed assets categories in order to better align this treatment with the observed economic behaviour of assets in these categories. As a result, the projected lives of machinery and office equipment have been extended respectively. These changes in accounting estimates have been applied prospectively. Beginning from May 2009, these modifications have changed depreciation in the aforementioned fixed assets categories, and the effect on the financial performance of the Group is approximately HK\$1.6 million.

Impact of new HKFRSs and HKASs

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
Amendments to HKFRS 7	<i>Financial Instruments: Disclosures</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
Amendments to HK(IFRIC)-Int 9 and HKAS 39	<i>Reassessment of Embedded Derivative</i>
HK (IFRIC) - Int 13	<i>Customer Loyalty Programmes</i>
HK (IFRIC) - Int 15	<i>Agreements for the Construction of Real Estate</i>
HK (IFRIC) - Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The adoption of this amendment has no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the adoption of the amendments has no significant implication on its accounting for share-based payments.

HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurement is now required, as well as significant transfer between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirement for liquidity risk disclosures.

HKFRS 8, which has replaced HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of this standard did not have any effect on the financial position or performance of the Group. Additional disclosures about each of these segments are shown in note 2, including revised comparative information.

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the adoption of the revised standard has no financial impact on the Group.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the adoption of these amendments did not have any financial impact on the Group.

Amendments to HK(IFRIC)-9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

HK (IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore the adoption of this standard did not have any financial impact on the Group.

HK (IFRIC)-Int 15 has replaced HK Interpretation 3 *Revenue-Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the adoption of this interpretation did not have any financial impact on the Group.

HK (IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the adoption of this interpretation did not have any financial impact on the Group.

Improvements to HKFRSs

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- (a) *HKFRS 7 Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.
- (b) *HKAS 1 Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with *HKAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management’s expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.
- (c) *HKAS 16 Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is calculated as the higher of an asset’s fair value less costs to sell and its value in use. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- (d) *HKAS 20 Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with *HKAS 39* and the benefit of the reduced interest to be accounted for as a government grant.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Improvements to HKFRSs (continued)

- (e) HKAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing cost' into one - the interest expense calculated using the effective interest rate method calculated in accordance with HKAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- (f) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- (g) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- (h) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

HKFRS 5	<i>Non-current Assets Held for Sale and Discontinued Operations</i>
HKAS 8	<i>Accounting Policies, Change in Accounting Estimates</i>
HKAS 10	<i>Events after the Reporting Period</i>
HKAS 18	<i>Revenue</i>
HKAS 19	<i>Employee Benefits</i>
HKAS 29	<i>Financial Reporting in Hyperinflationary Economics</i>
HKAS 31	<i>Interest in Joint Ventures</i>
HKAS 34	<i>Interim Financial Reporting</i>
HKAS 38	<i>Intangible Assets</i>
HKAS 39	<i>Financial Instruments: Recognition and Measurement</i>
HKAS 40	<i>Investment Property</i>
HKAS 41	<i>Agriculture</i>

2. SEGMENT INFORMATION

The management considers the performance of the business in China and overseas segments. The reportable operating segments derive their revenue from research, development, manufacturing 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 operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group research and development cost, income taxes, fair value loss of the derivative component of convertible bonds and interest on convertible bonds are managed on a group basis and are not allocated to operating segments.

Six months ended 30 June 2009

	Overseas HK\$'000	China HK\$'000	Adjustments & eliminations HK\$'000	Consolidated HK\$'000
Revenue				
External customers	1,124,241	203,233	-	1,327,474
Results				
Depreciation and amortisation	9,924	24,482	-	34,406
Segment profit/(loss) ¹	70,960	(82)	(110,384)	(39,506)
Assets				
Capital expenditure ³	943	7,584	33,543	42,070
Operating assets	1,290,185	2,119,154	173,901 ²	3,583,240
Operating liabilities	1,205,205	1,417,473	-	2,622,678
Non-current assets⁴	53,248	190,441	44,063	287,752

¹ Segment operating loss is before fair value loss of the derivative component of convertible bonds HK\$58,037,000 and interest on convertible bonds HK\$6,839,000 and does not include research and development costs HK\$110,384,000.

² Segment assets do not include goodwill HK\$146,856,000 and deferred tax assets HK\$27,045,000.

³ Segment capital expenditure excludes additions of capitalised research and development cost HK\$33,543,000.

⁴ Segment non-current assets for this purpose exclude capitalised research and development cost HK\$44,063,000.

2. SEGMENT INFORMATION (continued)

Six months ended 30 June 2008

	Overseas HK\$'000	China HK\$'000	Adjustments & eliminations HK\$'000	Consolidated HK\$'000
Revenue				
External customers	2,094,079	245,968	-	2,340,047
Results				
Depreciation and amortisation	13,110	27,802	-	40,912
Segment profit/(loss) ¹	127,548	(11,397)	(99,414)	16,737
Assets				
Capital expenditure ⁴	11,941	20,978	39,709	72,628
31 December 2008				
Operating assets	1,708,736	2,682,055	173,645 ²	4,564,436
Operating liabilities	1,316,577	2,040,998	142,058 ³	3,499,633
Non-current assets⁵	62,373	210,133	38,792	311,298

¹ Segment operating profit is before fair value gain of the derivative component of convertible bonds HK\$115,708,000 and interest on convertible bonds HK\$20,161,000 and does not include research and development costs HK\$99,414,000.

² Segment assets do not include goodwill HK\$146,856,000 and deferred tax assets HK\$26,789,000.

³ Segment liabilities do not include convertible bonds HK\$142,058,000.

⁴ Segment capital expenditure excludes additions of capitalised research and development cost HK\$39,709,000.

⁵ Segment non-current assets for this purpose exclude capitalised research and development cost HK\$38,792,000.

The largest customer accounted for approximately 12% of the total revenue for the six months ended 30 June 2009.

No customer accounted for 10% or more of the total revenue for the six month ended 30 June 2008.

3. 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 period, 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:

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue		
Sale of mobile phones and related components	<u>1,327,474</u>	<u>2,340,047</u>
Other income and gains		
Interest income	24,304	13,496
Subsidy income	7,951	-
VAT refund #	14,224	17,205
Value-added service income	1,921	3,605
Exchange gain, net	40,959	40,339
Gain on disposal of items of property, plant and equipment	685	-
Gain on buyback of convertible bonds	44,614	-
Others	<u>2,277</u>	<u>1,640</u>
Other income and gains	<u>136,935</u>	<u>76,285</u>

During the six months ended 30 June 2009, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

4. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	32,232	38,532
Prepaid land lease recognised	366	366
Amortisation of computer software and intellectual property	2,174	2,380
Research and development costs:		
Deferred expenditure amortised	28,272	19,325
Current period expenditure	82,112	80,089
	<u>110,384</u>	<u>99,414</u>
Impairment loss/(write back) of trade receivables	(2,796)	2,307
Write back of other receivables	(2,576)	-
Gain on disposal of items of property, plant and equipment	685	-
	<u>(2,796)</u>	<u>2,307</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans, and other loans wholly repayable within five years	20,216	5,162
Interest on discounted notes and factored trade receivables	<u>5,456</u>	<u>11,661</u>
Finance costs excluding interest on convertible bonds	25,672	16,823
Interest on convertible bonds*	<u>6,839</u>	<u>20,161</u>
Total finance costs	<u>32,511</u>	<u>36,984</u>

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

6. TAX

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
The PRC	28	33
Deferred:		
Mexico	-	580
	<u>28</u>	<u>613</u>
Tax charge for the period	<u>28</u>	<u>613</u>

No Hong Kong profits tax has been provided (2008: 16.5%) since no assessable profit arose in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate from 2004 to 2006 was 7.5%. Mobile Hohhot is subject to the PRC corporate income tax rate of 15% in 2007 and 25% from year 2008 onwards.

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

Profits tax has been provided in the PRC as taxable income arose during the period.

In 2007, TCT Mobile SA DE CV (formerly known as T&A Mobile Phones S.A. de C.V Limited) , a subsidiary of the Company in Mexico, was subject to tax on assets at a tax rate of 1.25% over its 2006 average specific assets balance. The Business Flat Tax Law (“LIETU”) went into effect on 1 January 2008. LIETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. LIETU payable is calculated by subtracting certain tax credits from the tax determined. Revenue, deductions and certain tax credits, are determined based on cash flows generated starting from 1 January 2008. The tax rate is 16.5% in 2008, 17% in 2009, and 17.5% in 2010. The assets tax law was repealed upon enactment of LIETU.

6. TAX (continued)

In 2008 and 2009, TCT Mobile-Telefones LTDA (formerly known as T&A Mobile Phones-Comercio de Telefones Ltda), a subsidiary of the Company in Brazil, is subject to a corporate income tax rate of 25% and a social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. No profit tax has been provided in Brazil as no taxable income arose during the period.

7. DIVIDEND

The directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2009 (2008: Nil).

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

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

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculations	<u>(104,410)</u>	<u>111,671</u>
	Number of shares*	
Shares	2009	2008
		(Restated)
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	715,049,870	708,583,562
Effect of dilution - weighted average number of ordinary shares: Assumed issuance upon the exercise of share options	<u>-</u>	<u>3,123,805</u>
Weighted average number of ordinary shares in issue during the period used in the diluted earnings/(loss) per share calculation	<u>715,049,870</u>	<u>711,707,367</u>

* The number of ordinary shares has been adjusted as a result of the ten-to-one share consolidation effective on 23 January 2009.

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

For the six months ended 30 June 2009, the convertible bonds had no impact on the diluted earnings per share as the convertible bonds have been fully redeemed during the period.

The calculation of the diluted loss per share for the six months ended 30 June 2009 has taken into account the share options outstanding during the period. Since the exercise price of certain share options during the period was higher than the fair market value of the ordinary shares, the share options outstanding during the period had an anti-dilutive effect on the Company.

9. TRADE RECEIVABLES

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

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within 3 months	372,183	643,608
From 4 to 12 months	266,209	195,604
Over 12 months	<u>22,416</u>	<u>20,333</u>
	660,808	859,545
Impairment loss of trade receivables	<u>(16,387)</u>	<u>(22,726)</u>
	<u>644,421</u>	<u>836,819</u>

10. 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:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within 6 months	445,997	377,280
From 7 to 12 months	14,204	211,484
More than 1 year	<u>8,318</u>	<u>1,890</u>
	<u>468,519</u>	<u>590,654</u>

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

No trade and notes payables are secured by the pledged deposits.

11. CONVERTIBLE BONDS

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

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

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

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

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

Fair value of the conversion option

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

11. CONVERTIBLE BONDS (continued)

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 1 January 2009 to 30 June 2009 resulted in a fair value loss of approximately HK\$58million, which has been recorded as “Changes in fair value of derivative component of Convertible Bonds” in the income statement for the six months ended 30 June 2009.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 30 June 2009 are as follows:

	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000
As at 1 January 2009	108,725	33,333	142,058
Change in fair value of the derivative component of convertible bonds	-	58,037	58,037
Interest expense	6,839	-	6,839
Amortised issue expense of convertible bonds	376	-	376
Buyback during the period	<u>(115,940)</u>	<u>(91,370)</u>	<u>(207,310)</u>
As at 30 June 2009	<u>-</u>	<u>-</u>	<u>-</u>

Conversion of US\$500,000 of the Convertible Bonds has occurred up to 30 June 2009.

The Company accepted the offers from the bondholders and fully bought back the Convertible Bonds during 2008 and for the six months ended 30 June 2009. On 25 September 2008, the Company bought back Convertible Bonds with a principal amount of US\$13,000,000 at a redemption price of US\$11,295,000. US\$6,960,000 of the redemption price was paid on 1 October 2008 whilst US\$4,335,000 of the redemption price was paid on 2 October 2008. On 10 October 2008, the Company bought back Convertible Bonds with a principal amount of US\$3,500,000 at a redemption price of US\$2,984,000. The payment was made on 15 October 2008. On 29 December 2008, the Company bought back Convertible Bonds with a principal amount of US\$6,000,000 at a redemption price of US\$4,155,000. The payment was made on 2 January 2009. On 16 February 2009, the Company bought back Convertible Bonds with a principal amount of US\$6,547,000 at a redemption price of US\$4,910,000. The payment was made on 19 February 2009. On 7 April 2009, the Company bought back Convertible Bonds with a principal amount of US\$453,000 at a redemption price of US\$339,750. The payment was made on 8 April 2009. On 15 May 2009, the Company bought back Convertible Bonds with a principal amount US\$15,000,000 at a redemption price of US\$15,600,000. The payment was made on 19 May 2009.

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

As a result of the buybacks and conversion, there was no outstanding principal amount of Convertible Bonds as at 30 June 2009.

12. SHARE CONSOLIDATION

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

Upon the Share Consolidation becoming effective, the Consolidated Shares rank pari passu in all respects with each other in accordance with the articles of association of the Company.

As a result of the Share Consolidation, the conversion price of the Convertible Bonds was adjusted from HK\$0.32 per share to HK\$3.2 per Share with effect from 23 January 2009.

In accordance with the rules of the share option scheme adopted by the Group and the supplementary guidance issued by the Stock Exchange of Hong Kong Limited (“Stock Exchange”), adjustments were made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options, which took effect on 23 January 2009.

13. COMPARATIVE AMOUNTS

During the reporting period, certain comparative amounts have been adjusted to conform with the current period’s presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Global demand for mobile handsets remained in the doldrums in the first half of 2009 as market sentiment remained subdued. Handset shipments slid due to the economic downturn which caused dampened consumers' desire to replace their existing handsets and that retailers were striving to clear out their inventories. Nevertheless, sales performance in the second quarter mildly improved following stabilization in the global economy as compared to the previous quarter.

The operating environment in Latin America and Europe was very challenging in the first half of 2009 while the economic crisis continued to take a bite out of consumers' spending. On the other hand, sales performance in the emerging markets, in particular China, remained buoyant.

Following the grant of 3G licenses by the Chinese Government, relevant 3G services have been launched gradually and drove the sustained growth of mobile industry in China.

Business Review

In the first half of this year, the Group successfully completed its business restructuring. While maintaining the mature business in low end market, the Group has begun its trial to penetrate into mid to high-end markets. The rapid development of 3G technology significantly enlarges the bandwidth of wireless communications and supports more diverse software applications at a faster speed. To cater for ever-increasing market competition and the start of the 3G era, it has established a "3G + 4C" approach as guidance for its future business development.

The "3G + 4C" approach means the Group will leverage on its technological know-how in 3G communications to provide comprehensive integrated services to customers including Communication, Computer, Consumer Electronics and Content (4C services). This business model will generate continuous cash flow to the Group, as contrasted to the one-off cash flow from the mere provision of handsets and sales of accessories.

In preparation for the change in business strategy, the Group strengthened its product research and development as well as product design, with a number of new models to be launched in the second half of 2009.

Review of Operations

Sales of the Group in the first half of 2009 were adversely affected leading to a decrease over the same period of last year, which is in line with the market due to the economic crisis. During the period under review, a total of 5.1 million units of handsets and accessories were sold in the first half of 2009, representing a decrease of 25% over the corresponding period in 2008.

Although the overall business environment in the first half of 2009 still remained difficult, the Group's operating performance showed significant improvement in the second quarter over the previous quarter. A total of 2.8 million units were sold in the second quarter of 2009, representing a significant increase of 22% over 2.3 million units in the first quarter. In particular, the single monthly sales volume in June 2009 reached 1.02 million units, representing a remarkable increase of 35% over the previous month, giving a salient sign of business recovery of the Group.

The significant improvement in the Group's operation performance and sales was primarily attributable to the Group's prompt response to the changes in market demand and the stabilization of the global economy. To strengthen its competitiveness, profitability and cost saving efficiency, the Group successfully applied a series of effective measures to improve its operating condition, such as successful strategies of cost-down measures, the buyback of Convertible Bonds, and the high level cash maintenance strategy, so as to improve the health financial position and operation of the Group.

Overseas sales volume amounted to 3.96 million in the first half of 2009, decreasing by 35% from the same period last year. The decline in overseas sales was mainly due to sluggish demand resulting from the economic recession. However, the overseas sales volume in the second quarter of this year showed a sign of recovery with an increase of 22% over the previous quarter.

Sales volume in China reached 1.1 million units in the first half of 2009, representing a remarkable increase of 75% over the same period of last year. To face the fierce competition in the market, the Group was actively preparing for major product launches in the second half of 2009.

Sales volume breakdown by location:

	Handsets and Accessories Unit Sales		
	For the six months ended 30 June		
<i>('000 units)</i>	2009	2008	Change (%)
Overseas	3,955	6,086	-35%
The PRC	1,103	630	75%
Total	5,058	6,716	-25%

Europe, Middle East and Africa (“EMEA”)

Shipments in the markets in Europe, the Middle East and Africa (“EMEA”) totaled 2.2 million units for the period under review, representing a 15% decrease over the same period last year. The decrease was primarily attributable to lesser sales volume in Africa in the second quarter of 2009. Meanwhile, sales in most of the European countries staged a steady growth.

Average selling prices of the products within the region were flat in the first half this year. While entry-level products such as the U81 series squeezed profit margins, the successful introduction of new low-end products such as the U91 series compensated for the lost margin.

During the period under review, the Group successfully re-entered the markets in Russia and Turkey. In the light of stabilization in the European economy, the Group is planning to expand its business development in the markets in Belgium, Switzerland and Ireland.

Latin America (“LATAM”)

In the first half of 2009, a total of 1.59 million units were sold in Latin America (“LATAM”), representing a decline of 49% from the same period last year. Weak consumer sentiment resulting from the economic recession was the dominant factor causing lower sales volume in the region.

Average selling prices in the region were slightly lower in the second quarter of 2009 than those in the first quarter, as the majority of products sold in the region were low-end products and the product life cycle of some products approached to a saturation stage. However, the status is expected to be better with the launch of mid to high-end products including the OT-800 (“Jade”) and OT-708 (“Mini”) series in the second half of 2009.

The PRC

During the period under review, sales volume in China increased by 75% year-on-year to 1.1 million units. Due to the emphasized effort on clearing out inventories, the average selling prices in the first half of 2009 slightly went down when compared with the corresponding period of last year.

The Group is well prepared for the coming of the 3G era in China, and will further strengthen the cooperation with the major operators in China.

Besides, the Group also actively bid under the government’s “Household Appliance Subsidy Scheme in Rural Areas” to propel sales growth in rural areas. A total of 13 products of the Group won the bid in the first half of 2009.

Other Markets

Though the economic crisis had significant impact on the global handset sales, the Group's CDMA handsets sales for the period under review roughly maintained the same level as those for the corresponding period of last year. As low-end products contributed a significant portion to total sales, the average selling prices of CDMA handsets slid by 10% year-on-year in the first half of 2009.

During the period under review, the Group successfully penetrated into the Indonesian and Fiji market. Moreover, it has successfully gained a foothold in Thailand, Taiwan, Angola and Indonesia by partnering with key players in these regions. Taking into account the stabilizing global economy, the management believes CDMA sales are likely to improve in the second half of 2009.

Moreover, during the period under review, the Group has explored the market in the USA and Australia.

Product Development

In the first half of 2009, the Group launched a series of Alcatel brand products to further diversify its product mix. Four voice-oriented models introduced in the first quarter, being, the OT-102, OT-103, OT-111 and OT-208 series, were developed under the existing technological platform of the Group and therefore their development cost was relatively low.

During the second quarter of 2009, series of products were launched to address the needs of customers from low to high-end markets. They included five ultra low cost handsets (OT-202, OT-203, OT-303, OT-360A and OT-363 series), two camera handsets (OT-600 and OT-660 series) and a mobile Internet device ("MID") product, i.e. OT-800 ("Jade"). The OT-800 ("Jade") series were the first mobile phones with concentrated Qwerty keypad designed for teenagers to access the Internet and messaging functions and were well received by key operators around the world. Meanwhile, the OT-203 series were popular in the emerging markets, and the OT-708 ("One Touch Mini") series with touch screen feature also received favorable response from the markets.

In addition, the Group launched three data cards in the second quarter of 2009, i.e., the 3G HSDPA USB dongle, the EVDO Rev A USB dongle and the 3G WIFI router. The 3G WIFI router, developed and designed by the Group based on customers' feedback, is a truly plug-and-play router which enables users to set up an instant wireless network to share a 3G connection. Therefore, it has received a positive response from the users after its launch to the market. Moreover, the 3G HSDPA USB dongle launched by the Group prevailed among cost sensitive customers while the launch of the EVDO Rev A USB dongle was well received in China, North Africa and the Asia Pacific.

Outlook

As economic stimulus packages introduced in various parts of the world are taking effect, the global economy is expected to pick up gradually in the second half this year. Besides, the recent market data indicates that the handset industry has stabilized after the downturn starting from the third quarter last year.

The Group believes that the European and American market will recover gradually while the Asia Pacific market will remain the key driver for the growth in the handset industry. With a favorable economic environment and a rapid transformation of its telecommunication sector, China's handset industry will continue to expand at a healthy pace. The management believes that the Group's sales performance will gradually improve in the second half of this year.

To grasp the market opportunities arising from the burgeoning 3G sector, the Group will continue to push ahead with our "3G + 4C" business model and strengthen its efforts in product innovation and design. The Group's product research team has mastered 3G technology platforms and started to design more competitive products to be sold at competitive prices.

In addition, a mobile Internet device ("MID") product and three ultra low cost products under the Alcatel brand will be launched in second half which will help increase the overall sales volume of the Group this year.

Looking ahead, the management believes the second half of 2009 will be still be full of present challenges. However, as global economy appears to stabilize, the management is confident of meeting sales targets for the year.

Financial Review

Results

For the six months ended 30 June 2009, the Group's unaudited consolidated revenue amounted to HK\$1,327 million (same period in 2008: HK\$2,340 million), representing a year-on-year decrease of 43% as compared to the same period last year.

The Group's gross profit margin dropped to 15% from 19% in the same period last year, because of the slump of global demand and general declining product prices.

LBITDA before effect of convertible bonds and loss attributable to equity holders of the parent were HK\$4 million and HK\$104 million respectively (same period in 2008: EBITDA before effect of convertible bonds and profit attributable to equity holders of the parent were HK\$61 million and HK\$112 million respectively). Loss before the effect of convertible bonds¹ is HK\$39 million. Basic loss per share was HK14.60 cents (same period in 2008(restated): basic earnings per share were HK15.76 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 21 days (same period in 2008: 24 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivables (including trade receivables and factored trade receivables) turnover was 72 days (same period in 2008 (restated): 73 days).

Significant Investments and Acquisitions

There was no significant investment and acquisition for the six months ended 30 June 2009.

Fund Raising

There was no fund raising for the six months ended 30 June 2009.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period 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 balance as at 30 June 2009 amounted to HK\$628 million, of which 51% were in Renminbi, 32% in United States dollars, 11% in Euro and 6% in Hong Kong dollars & other currencies. The Group's total interest-bearing borrowings as at 30 June 2009 were HK\$1,003 million, in which the interest bearing bank and other borrowings were HK\$964 million (which included those interest-bearing borrowing for RMB foreign exchange program amounting to HK\$689 million) and bank advances on factored trade receivables were about HK\$39 million. The Group's financial position remained healthy during the period under review, with total assets of HK\$3,583 million. The Group had a gearing ratio of 28% at the end of the period under review (31 December 2008 (restated): 47%). 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 13% (31 December 2008 (restated): 20%).

1:

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

Pledge of Deposits

Deposit balance of approximately HK\$1,100 million (31 December 2008: HK\$1,670 million) represented the pledged deposit for certain RMB foreign exchange program of approximately HK\$1,076 million and retention guarantee for factored trade receivables of approximately HK\$24 million.

Capital Commitment and Contingent Liabilities

As at 30 June 2009, the Group had no significant capital commitments which were contracted, but not provided for (31 December 2008: Nil).

The Group had no contingent liabilities for the six months ended 30 June 2009.

Foreign Exchange Exposure

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

Employees and Remuneration Policy

The Group had approximately 3,700 employees as at 30 June 2009. Total staff costs for the period under review were approximately HK\$195 million. The remuneration policy was reviewed in accordance with current legislations, 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 period under review.

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 six months ended 30 June 2009, complied fully with the codes set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("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 ("Model Code"). Specific enquiry has 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.

AUDIT COMMITTEE

The interim results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises three members including Mr. Lau Siu Ki (Chairman) and Mr. Shi Cuiming, independent non-executive directors 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, 18 August 2009

As at the date of this announcement, the Board comprises Mr. Li Dongsheng, Mr. Yang Charles Xinping 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 and Mr. Shi Cuiming, being the independent non-executive directors.