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## TCL Communication Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02618)

### RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2010

| <b>FINANCIAL HIGHLIGHTS</b>  |                                  |                    |        |
|--|----------------------------------|--------------------|--------|
| <i>Unaudited results for the three months ended 31 March</i>           |                                  |                    |        |
|  | <b>2010</b><br><b>(HK\$'000)</b> | 2009<br>(HK\$'000) | Change |
| Turnover   | <b>1,474,149</b>                 | 614,549            | +140%  |
| Gross Profit   | <b>292,287</b>                   | 85,519             | +242%  |
| E(L)BITDA before effect of convertible bonds*                          | <b>85,372</b>                    | (15,522)           | N/A    |
| Net profit/(loss) before effect of convertible bonds*                  | <b>69,533</b>                    | (42,388)           | N/A    |
| Changes in fair value of the derivative component of convertible bonds | -                                | (6,246)            | N/A    |
| Interest on convertible bonds  | -                                | (4,717)            | N/A    |
| Profit/(loss) attributable to owners of the parent                     | <b>69,533</b>                    | (53,354)           | N/A    |
| Basic earnings/(loss) per share (HK cents) (as restated)               | <b>6.54</b>                      | (5.83)             | N/A    |

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

### OPERATIONAL HIGHLIGHTS

- Total sales volume of handsets and accessories reached 5.79 million units in the first quarter 2010, a decrease of 15% from the previous quarter, but a substantial increase of 154% over the same period last year and an increase of 72% over the pre-financial crisis level recorded for the same period in 2008. These results demonstrate that the Group sustained stable growth in sales.
- In the first quarter 2010, the average selling price fell from US\$37 in previous quarter to US\$33, meanwhile the gross profit margin fell from 26% to 20%.
- During the period under review, the Group recorded revenue of HK\$1.47 billion, a remarkable increase of 140% over the same period last year.
- Profit attributable to owners of the parent for the first quarter 2010 was HK\$70 million as compared to a loss of HK\$53 million for the same period last year and the pre-crisis profit of HK\$20 million recorded in the first quarter of 2008. These results show that its operating performance made significant improvements.
- ODM business grew steadily and performed well. The shipment of ODM products continued during the period under review.

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 the three months ended 31 March 2010, 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:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

|  |       | <b>Three months ended</b> |                  |
|--|-------|---------------------------|------------------|
|  |       | <b>31 March</b>           |                  |
|  | Notes | <b>2010</b>               | 2009             |
|  |       | <b>(Unaudited)</b>        | (Unaudited)      |
|  |       | <b>HK\$’000</b>           | HK\$’000         |
| REVENUE  | 3     | <b>1,474,149</b>          | 614,549          |
| Cost of sales  |       | <u><b>(1,181,862)</b></u> | <u>(529,030)</u> |
| Gross profit   |       | <b>292,287</b>            | 85,519           |
| Other income and gains   | 3     | <b>33,402</b>             | 61,497           |
| Research and development costs   |       | <b>(58,087)</b>           | (51,297)         |
| Selling and distribution costs   |       | <b>(109,687)</b>          | (61,879)         |
| Administrative expenses  |       | <b>(76,845)</b>           | (57,992)         |
| Other operating expenses   |       | <b>(398)</b>              | (472)            |
| Finance costs excluding interest on convertible bonds  | 5     | <b>(8,226)</b>            | (17,138)         |
| Share of losses of associates  |       | <b>(383)</b>              | (484)            |
| Share of profit/(loss) of a jointly-controlled entity  |       | <u><b>943</b></u>         | <u>(142)</u>     |
|  |       | <b>73,006</b>             | (42,388)         |
| Changes in fair value of the derivative component of convertible bonds                                   |       | -                         | (6,246)          |
| Interest on convertible bonds  | 5     | <u>-</u>                  | <u>(4,717)</u>   |
| PROFIT/(LOSS) BEFORE TAX   | 4     | <b>73,006</b>             | (53,351)         |
| Income tax expense   | 6     | <u><b>(3,473)</b></u>     | <u>(3)</u>       |
| PROFIT/(LOSS) FOR THE PERIOD   |       | <u><b>69,533</b></u>      | <u>(53,354)</u>  |
| Attributable to:   |       |                           |                  |
| Owners of the parent   |       | <u><b>69,533</b></u>      | <u>(53,354)</u>  |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) (as restated) | 7     |                           |                  |
| Basic  |       | <u><b>6.54</b></u>        | <u>(5.83)</u>    |
| Diluted  |       | <u><b>6.47</b></u>        | <u>N/A</u>       |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

|   | <b>Three months ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>31 March</b>           |                    |
|   | <b>2010</b>               | <b>2009</b>        |
|   | <b>(Unaudited)</b>        | <b>(Unaudited)</b> |
|   | <b>HK\$'000</b>           | <b>HK\$'000</b>    |
| PROFIT/(LOSS) FOR THE PERIOD  | <u>69,533</u>             | <u>(53,354)</u>    |
| OTHER COMPREHENSIVE INCOME  |                           |                    |
| Cash flow hedges:   |                           |                    |
| Effective portion of changes in fair value of hedging instruments arising during the period | -                         | 23,869             |
| Reclassification adjustments for gains included in the consolidated income statement        | <u>-</u>                  | <u>-</u>           |
|   | -                         | 23,869             |
| Exchange differences on translation of foreign operations                                   | <u>(19,625)</u>           | <u>(16,931)</u>    |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX                                       | <u>(19,625)</u>           | <u>6,938</u>       |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD   | <u>49,908</u>             | <u>(46,416)</u>    |
| Attributable to:  |                           |                    |
| Owners of the parent  | <u>49,908</u>             | <u>(46,416)</u>    |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

|   | <b>31 March<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | <b>31 December<br/>2009<br/>(Audited)<br/>HK\$'000</b> |
|---|---|--|
|   | Notes   |  |
| <b>NON-CURRENT ASSETS</b>   |   |  |
| Property, plant and equipment                                     | 213,229   | 220,211  |
| Prepaid land lease payments                                       | 15,488  | 15,671   |
| Intangible assets   | 65,465  | 54,876   |
| Deferred tax assets   | 14,224  | 17,276   |
| Goodwill  | 146,856   | 146,856  |
| Available-for-sale investments                                    | 20,245  | 20,245   |
| Interests in associates   | 8,400   | 8,801  |
| Interest in a jointly-controlled entity                           | 4,934   | 3,992  |
| Other non-current assets  | 152   | 152  |
|   | <u>488,993</u>  | <u>488,080</u>   |
| <b>TOTAL non-current assets</b>                                   |   |  |
| <b>CURRENT ASSETS</b>   |   |  |
| Inventories   | 780,762   | 448,181  |
| Trade receivables   | 8 1,013,375   | 1,304,069  |
| Factored trade receivables  | 177,214   | 224,223  |
| Notes receivable  | 10,031  | 4,142  |
| Prepayments, deposits and other receivables                       | 412,230   | 282,496  |
| Due from related companies  | 13,934  | 14,289   |
| Tax recoverable   | 5,747   | 4,272  |
| Derivative financial instruments                                  | 25,546  | 34,593   |
| Pledged deposits  | 2,353,231   | 1,187,336  |
| Restricted deposits received from rights issue excess application | -   | 1,604,495  |
| Cash and cash equivalents   | 1,123,434   | 1,169,750  |
|   | <u>5,915,504</u>                                      | <u>6,277,846</u>                                       |
| <b>TOTAL current assets</b>                                       |   |  |
| <b>CURRENT LIABILITIES</b>  |   |  |
| Interest bearing bank and other borrowings                        | 2,590,587   | 1,460,596  |
| Trade and notes payables  | 9 1,097,425   | 1,073,764  |
| Bank advances on factored trade receivables                       | 177,214   | 224,223  |
| Derivative financial instruments                                  | 17,882  | 7,723  |
| Tax payable   | 425   | 425  |
| Other payables and accruals                                       | 768,570   | 737,149  |
| Other payable arising from rights issue excess application        | -   | 1,604,495  |
| Provision for warranties  | 109,080   | 63,390   |
| Due to related companies  | 123,367   | 138,246  |
|   | <u>4,884,550</u>                                      | <u>5,310,011</u>                                       |
| <b>TOTAL current liabilities</b>                                  |   |  |
| <b>NET CURRENT ASSETS</b>   | <u>1,030,954</u>                                      | <u>967,835</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                      | <u>1,519,947</u>                                      | <u>1,455,915</u>                                       |

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

|  |       | <b>31 March<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|--|-------|---|--|
|  | Notes |   |  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>       |       | <b><u>1,519,947</u></b>                               | <u>1,455,915</u>                             |
| <b>NON-CURRENT LIABILITIES</b>                     |       |   |  |
| Retirement indemnities                             |       | <b>1,262</b>  | 1,351  |
| Long service medals                                |       | <b>884</b>  | 959  |
| Other payable arising from rights issue            |       | -   | 357,812                                      |
| Interest bearing bank and other borrowings         |       | -   | <u>1,092</u>                                 |
| Total non-current liabilities                      |       | <b><u>2,146</u></b>                                   | <u>361,214</u>                               |
| Net assets   |       | <b><u>1,517,801</u></b>                               | <u>1,094,701</u>                             |
| <b>EQUITY</b>                                      |       |   |  |
| <b>Equity attributable to owners of the parent</b> |       |   |  |
| Issued capital                                     | 10    | <b>1,080,014</b>                                      | 715,624                                      |
| Shares held for Share Award Scheme                 |       | <b>(27,784)</b>                                       | (27,784)                                     |
| Reserves   |       | <b>428,001</b>  | 369,291                                      |
| Proposed final dividends                           |       | <b>37,570</b>   | <u>37,570</u>                                |
| Total equity                                       |       | <b><u>1,517,801</u></b>                               | <u>1,094,701</u>                             |

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 the derivative component of the convertible bonds, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated. Except for the adoption of the amendment to HKFRS 8, which 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, the accounting policies and basis of preparation adopted in the preparation of these financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009. Upon the adoption of the amendment to HKFRS 8, the Group no longer discloses segment asset information as it is not currently reviewed by the chief operating decision maker.

## **2. OPERATING SEGMENT INFORMATION**

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

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group’s profit/(loss) from operations except research and development costs, 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.

2. OPERATING SEGMENT INFORMATION (continued)

Three months ended 31 March 2010

|   | Overseas<br>HK\$'000 | Mainland China<br>HK\$'000 | Total<br>HK\$'000    |
|---|----------------------|----------------------------|----------------------|
| <b>Segment revenue:</b>                                     |                      |                            |                      |
| Sales to external customers                                 | 1,371,902            | 102,247                    | 1,474,149            |
| Intersegment sales  | 61,742               | 1,261,189                  | 1,322,931            |
|   | <u>1,433,644</u>     | <u>1,363,436</u>           | <u>2,797,080</u>     |
| <i>Reconciliation:</i>                                      |                      |                            |                      |
| Elimination of intersegment sales                           |                      |                            | <u>(1,322,931)</u>   |
| Revenue from operations                                     |                      |                            | <u>1,474,149</u>     |
| <b>Segment results</b>                                      | <b>125,423</b>       | <b>5,670</b>               | <b>131,093</b>       |
| <i>Reconciliation:</i>                                      |                      |                            |                      |
| Research and development costs                              |                      |                            | <u>(58,087)</u>      |
| Profit before tax   |                      |                            | <u><u>73,006</u></u> |
| <b>Other segment information:</b>                           |                      |                            |                      |
| Share of profit and loss of:                                |                      |                            |                      |
| Associates  | -                    | (383)                      | (383)                |
| A jointly-controlled entity                                 | -                    | 943                        | 943                  |
| Write-back of trade receivables in the income statement     | (1,338)              | -                          | (1,338)              |
| Other non-cash expenses                                     | 5,184                | -                          | 5,184                |
| Depreciation of property, plant and equipment               | 3,589                | 9,355                      | 12,944               |
| Amortisation of computer software and intellectual property | 566                  | 245                        | 811                  |
| Prepaid land lease recognised                               | -                    | 183                        | 183                  |

## 2. OPERATING SEGMENT INFORMATION (continued)

### Three months ended 31 March 2009

|   | Overseas<br>HK\$'000 | Mainland China<br>HK\$'000 | Total<br>HK\$'000 |
|---|----------------------|----------------------------|-------------------|
| <b>Segment revenue:</b>   |                      |                            |                   |
| Sales to external customers   | 515,631              | 98,918                     | 614,549           |
| Intersegment sales  | 81,004               | 503,397                    | 584,401           |
|   | <u>596,635</u>       | <u>602,315</u>             | <u>1,198,950</u>  |
| <i>Reconciliation:</i>  |                      |                            |                   |
| Elimination of intersegment sales   |                      |                            | <u>(584,401)</u>  |
| Revenue from operations   |                      |                            | <u>614,549</u>    |
| <b>Segment results (as restated)</b>                                      | 20,989               | (12,080)                   | 8,909             |
| <i>Reconciliation:</i>  |                      |                            |                   |
| Research and development costs  |                      |                            | (51,297)          |
| Changes in fair value of the derivative<br>component of convertible bonds |                      |                            | (6,246)           |
| Interest on convertible bonds   |                      |                            | <u>(4,717)</u>    |
| Loss before tax   |                      |                            | <u>(53,351)</u>   |
| <b>Other segment information:</b>   |                      |                            |                   |
| Share of loss of:   |                      |                            |                   |
| Associates  | -                    | (484)                      | (484)             |
| A jointly-controlled entity   | -                    | (142)                      | (142)             |
| Write-back of trade receivables in the income<br>statement                | (1,387)              | -                          | (1,387)           |
| Other non-cash expenses   | 1,837                | -                          | 1,837             |
| Depreciation of property, plant and equipment                             | 7,073                | 13,130                     | 20,203            |
| Amortisation of computer software and<br>intellectual property            | 552                  | 690                        | 1,242             |
| Prepaid land lease recognised   | -                    | 183                        | 183               |

The largest customer accounted for approximately 10% of the total revenue for the three months ended 31 March 2010.

No customer accounted for 10% or more of the total revenue for the three months ended 31 March 2009.

### 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 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:

|  | For the three months<br>ended 31 March |                                 |
|--|--|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000        | 2009<br>(Unaudited)<br>HK\$'000 |
| <b>Revenue</b>   |  |                                 |
| Sale of mobile phones and related components               | <u>1,474,149</u>                       | <u>614,549</u>                  |
| <b>Other income and gains</b>                              |  |                                 |
| Interest income  | 9,615                                  | 11,717                          |
| Subsidy income   | 233                                    | -                               |
| VAT refunds*   | 8,647                                  | 6,368                           |
| Value-added service income                                 | 305                                    | 1,157                           |
| Exchange gain, net   | 12,988                                 | 17,033                          |
| Gain on disposal of items of property, plant and equipment | 205                                    | 699                             |
| Gain on repurchase of convertible bonds                    | -                                      | 22,229                          |
| Others   | <u>1,409</u>                           | <u>2,294</u>                    |
|  | <u>33,402</u>                          | <u>61,497</u>                   |

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

#### 4. PROFIT/(LOSS) BEFORE TAX

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

|   | For the three months<br>ended 31 March |                                 |
|---|--|---------------------------------|
|   | 2010<br>(Unaudited)<br>HK\$'000        | 2009<br>(Unaudited)<br>HK\$'000 |
| Depreciation  | 12,944                                 | 20,203                          |
| Prepaid land lease recognised                               | 183                                    | 183                             |
| Amortisation of computer software and intellectual property | 811                                    | 1,242                           |
| Research and development costs:                             |  |                                 |
| Deferred expenditure amortised                              | 12,048                                 | 17,092                          |
| Current year expenditure                                    | 46,039                                 | 34,205                          |
|   | <u>58,087</u>                          | <u>51,297</u>                   |
| Write-back of trade receivables                             | (1,338)                                | (1,387)                         |
| Gain on disposal of items of property, plant and equipment  | <u>(205)</u>                           | <u>(699)</u>                    |

#### 5. FINANCE COSTS

|   | For the three months<br>ended 31 March |   |
|---|--|---|
|   | 2009<br>(Unaudited)<br>HK\$'000        | 2009<br>(Unaudited)<br>HK\$'000<br>(Restated) |
| Interest on bank loans, and other loans wholly repayable within<br>five years | 7,673                                  | 14,676  |
| Interest on discounted notes and factored trade receivables*                  | <u>553</u>                             | <u>2,462</u>                                  |
| Finance costs excluding interest on convertible bonds                         | 8,226                                  | 17,138  |
| Interest on convertible bonds**   | <u>-</u>                               | <u>4,717</u>                                  |
| Total finance costs   | <u>8,226</u>                           | <u>21,855</u>                                 |

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

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

## 6. INCOME TAX

|                           | <b>For the three months<br/>ended 31 March</b> |                         |
|---------------------------|--|-------------------------|
|                           | <b>2010</b>                                    | 2009                    |
|                           | <b>(Unaudited)<br/>HK\$'000</b>                | (Unaudited)<br>HK\$'000 |
| Current:                  |  |                         |
| The PRC                   | -  | 3                       |
| Brazil                    | <b>61</b>                                      | -                       |
| Deferred:                 |  |                         |
| The PRC                   | <b>3,412</b>                                   | -                       |
|                           | <hr/>  | <hr/>                   |
| Tax charge for the period | <b>3,473</b>                                   | <b>3</b>                |
|                           | <hr/> <hr/>                                    | <hr/> <hr/>             |

No Hong Kong profits tax has been provided (2009: Nil) 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.

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

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

TCT Mobile Europe SAS, a subsidiary of the Company in France, was subject to a corporate income tax rate of 33.33% in 2010.

**6. INCOME TAX (continued)**

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

In 2009 and 2010, TCT Mobile-Telefones LTDA, a subsidiary of the Company in Brazil, was subject to a corporate income tax rate of 25% and a social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. Profit tax has been provided in Brazil as taxable income arose during the period (2009: Nil).

**7. 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:

|  | <b>For the three months<br/>ended 31 March</b> |                    |
|--|--|--------------------|
|  | <b>2010</b>                                    | 2009               |
|  | <b>(Unaudited)</b>                             | (Unaudited)        |
|  | <b>HK\$'000</b>                                | HK\$'000           |
| Profit/(loss)  |  |                    |
| Profit/(loss) attributable to ordinary equity holders of the parent,<br>used in the basic and diluted earnings/(loss) per share<br>calculation | <b><u>69,533</u></b>                           | <u>(53,354)</u>    |
|  | <b>Number of shares</b>                        |                    |
| <u>Shares</u>  | <b>2010</b>                                    | 2009               |
| Weighted average number of ordinary shares in issue during<br>the period used in the basic earnings/(loss) per share<br>calculation            | <b>1,062,576,833</b>                           | 914,843,216        |
| Effect of dilution - weighted average number of ordinary shares:<br>Assumed issuance upon the exercise of share options                        | <b><u>11,925,795</u></b>                       | <u>-</u>           |
| Weighted average number of ordinary shares used in the diluted<br>earnings/(loss) per share calculation  | <b><u>1,074,502,628</u></b>                    | <u>914,843,216</u> |

The calculation of the diluted profit per share for the three months ended 31 March 2010 has taken into account the share options outstanding during the period. Since the exercise price of share options during the period was lower than the fair market value of the ordinary shares, the share options outstanding during the period had a dilutive effect on the Company.

## 8. 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:

|                                      | <b>31 March<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|--------------------------------------|---|--|
| Within 3 months                      | <b>899,345</b>  | 1,140,539                                    |
| From 4 to 12 months                  | <b>114,785</b>  | 145,671                                      |
| Over 12 months                       | <b>19,729</b>   | 41,125                                       |
|                                      | <hr/>   | <hr/>  |
|                                      | <b>1,033,859</b>                                      | 1,327,335                                    |
| Impairment loss of trade receivables | <b>(20,484)</b>                                       | (23,266)                                     |
|                                      | <hr/>   | <hr/>  |
|                                      | <b>1,013,375</b>                                      | 1,304,069                                    |
|                                      | <hr/> <hr/>   | <hr/> <hr/>                                  |

## 9. 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:

|                     | <b>31 March<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|---------------------|---|--|
| Within 6 months     | <b>1,091,245</b>                                      | 1,067,731                                    |
| From 7 to 12 months | <b>244</b>  | 175  |
| More than 1 year    | <b>5,936</b>  | 5,858  |
|                     | <hr/>   | <hr/>  |
|                     | <b>1,097,425</b>                                      | 1,073,764                                    |
|                     | <hr/> <hr/>   | <hr/> <hr/>                                  |

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

As at March 31 2010, no trade and notes payables are secured by the pledged deposits (31 December 2009: HK\$3,565,000).

## 10. SHARE CAPITAL

|  | Number of<br>shares     | Issued<br>share capital<br>HK\$'000 | Share<br>premium<br>HK\$'000 |
|--|-------------------------|-------------------------------------|------------------------------|
| Authorised:  |                         |                                     |                              |
| Ordinary shares of HK\$0.1 each at 1 January 2009                              | 20,000,000,000          | 2,000,000                           |                              |
| Share consolidation(a)   | <u>(18,000,000,000)</u> | <u>-</u>                            |                              |
| Ordinary shares of HK\$1 each at 31 December 2009 and 31 March 2010            | <u>2,000,000,000</u>    | <u>2,000,000</u>                    |                              |
| Issued and fully paid or credited as fully paid:                               |                         |                                     |                              |
| At 1 January 2009 (as restated)  | 7,150,498,709           | 715,050                             | 1,575,709                    |
| Share consolidation(a)   | (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 final dividends   | <u>-</u>                | <u>-</u>                            | <u>(37,570)</u>              |
| At 31 December 2009 and at 1 January 2010                                      | 715,623,870             | 715,624                             | 1,551,001                    |
| Share options exercised(b)   | 6,578,390               | 6,578                               | 7,941                        |
| Shares allotted and issued pursuant to the completion of rights issue offer(c) | <u>357,811,935</u>      | <u>357,812</u>                      | <u>(4,323)</u>               |
| At 31 March 2010   | <u>1,080,014,195</u>    | <u>1,080,014</u>                    | <u>1,554,619</u>             |

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

- (a) Pursuant to the Share Consolidation effective on 23 January 2009, every 10 issued and unissued shares of HK\$0.10 each have been consolidated into one consolidated share ("Consolidated Share") of HK\$1.00 each and authorised ordinary share capital of the Company has become HK\$2,000,000,000 divided into 2,000,000,000 Consolidated Shares, of which 715,049,870 Consolidated Shares were in issue.
- (b) 6,578,390 share options were exercised during the year 2010 at subscription prices ranging from HK\$1.648 to HK\$2.973 per share, resulting in the issue of 6,578,390 shares of HK\$1.00 each for a total cash consideration of HK\$14,519,000.
- (c) To meet the requirement of ODM business development and increase the Company's production capacity, on 3 November 2009, the Company proposed to issue no less than 357,524,935 new shares at the price of HK\$1.00 per rights share and under the term of one rights share for every two existing shares. The rights issue was completed on 4 January 2010 and 357,811,935 shares were issued.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **INDUSTRY OVERVIEW**

The global handset market saw a modest recovery in the first quarter after experiencing the doldrums in 2009. Consumer confidence gradually picked up amid improvements in the macro-economic environment. The handset replacement cycle therefore shortened when compared to the past two years. Moreover, the market was overwhelmed with new models launched by various vendors. As a result, handset sales regained growth momentum. Nevertheless, market competition remained fierce and handset prices still came under pressure.

### **BUSINESS REVIEW**

In the face of severe competition, the Group strengthened the development of low-end handsets and accessories and steadily developed mid to high-end operations in order to address different needs in the market. These endeavors enabled the Group to enhance profitability through extension of its value chain and optimization of its business structure.

During the period under review, the Group deepened and expanded strategic cooperation with major telecommunication operators and produced satisfactory results. While continuing to expand its own brand business, it continued to promote Original Design Manufacturer (ODM) operation to drive overall sales growth and to significantly enhance operating efficiency.

### **REVIEW OF OPERATIONS**

Total sales volume of handsets and accessories reached 5.79 million units in the first quarter 2010, a decrease of 15% from the previous quarter, but a substantial increase of 154% over the same period last year and an increase of 72% over the pre-financial crisis level recorded for the same period in 2008. These results demonstrate that the Group sustained stable growth in sales.

During the period under review, sales volume in overseas markets topped 5.34 million units, an almost two-fold increase over the same period last year and an increase of 72% over the first quarter of 2008. Its overseas performance remained on a healthy growth trend. Meanwhile, sales volume in the PRC market amounted about 450,000 units, a slight decrease of 8% from the same period in 2009 and an increase of 69% over the pre-crisis level recorded in the same period in 2008. The Group's overall sales performance was pleasing.

In the first quarter 2010, the average selling price fell from US\$37 in previous quarter to US\$33, meanwhile the gross profit margin fell from 26% to 20%.

In January 2010, the Company completed the Rights Issues and successfully raised approximately HK\$358 million, which enabled the Group to increase its production capacity and expand its businesses.

## **REVIEW OF OPERATIONS** (continued)

### **Sales volume breakdown by location:**

|                      | <b>Handset and Accessories Unit Sales</b>  |       |                   |
|----------------------|--|-------|-------------------|
|                      | <b>For the three months ended 31 March</b> |       |                   |
| <i>( '000 units)</i> | <b>2010</b>                                | 2009  | <b>Change (%)</b> |
| Overseas             | <b>5,340</b>                               | 1,787 | +199%             |
| The PRC              | <b>449</b>                                 | 489   | -8%               |
| Total                | <b>5,789</b>                               | 2,276 | 154%              |

### **EUROPE, MIDDLE EAST AND AFRICA (“EMEA”)**

In the first quarter of 2010, the Group’s sales volume in European, the Middle East and African Markets (“EMEA”) amounted to 2.05 million units, a remarkable increase of 120% over the same period last year and an increase of 46% over the same period in 2008. The outstanding sales performance in EMEA was primarily due to the enthusiastic market response to the OT-800 (“Jade”) and OT-708 (“One Touch MINI”) series.

During the period under review, the Group cultivated a closer relationship with major telecommunication operators in these markets and established footholds in Russia, Africa and the Middle East.

### **Americas**

In the first quarter of 2010, the Group’s sales volume in Americas reached 2.77 million units, a significant growth of 252% from the same period last year and an increase of 82% from the same period in 2008. The OT-708 (“One Touch MINI”) series gained popularity in these markets and their sales performance was very encouraging.

During the review period, it actively explored business in Brazil and Central America and achieved remarkable sales results. Moreover, it forged closer partnership with a number of major telecommunication operators in the region.

### **The PRC**

During the period under review, the Group’s sales volume of handsets and accessories in the PRC market was about 450,000 units, a slight decrease of 8% from the same period in previous year but an increase of 69% over the pre-crisis level recorded in the same period of 2008. During the period under review, the Group adjusted product strategy and sales channels and introduced a combination of competitive low to mid-end products in the market. Besides, it strengthened cooperation with major domestic telecommunication operators to propel business growth.

## **OTHER MARKETS**

During the review period, the Group continued the shipment of ODM products, vigorously expanded ODM business and achieved promising results. Sales performance of this segment was in line with expectations. The Group will continue to explore more business partners for this business.

The Group continued to step up efforts in expanding business in Asia Pacific markets and successfully penetrated into India, Israel, Vietnam and Nepal.

Moreover, the sales of CDMA handsets and accessories were also encouraging with about 270,000 sales units, a substantial increase of 88% over the same period of last year. During the review period, it successfully explored Indonesian and Vietnam markets.

## **PRODUCT DEVELOPMENT**

The Group enhanced efforts in product development in the first quarter of 2010 and rolled out a number of low to mid-end handsets to address different needs in the market. They included a model of ultra low cost handset, three models of entry-level camera phones, and four models of mid-end phones which featured stylish design and incorporated a variety of functions including entertainment, instant messaging and social networking. They were all received enthusiastic response by the market. Amongst these phones, the OT-808 series boasted themselves with unique feminine design and QWERTY keypad, OT-880 featuring cross-over experience of OWERTY keypad, touch screen and sliding cover design, while the “One Touch CHROME” and “One Touch CARBON” series stood out with their stylish outlook. As a result, they were very popular in the market, and were well received by many key telecommunication operators.

Moreover, it strengthened cooperation with internationally renowned fashion brands in order to enrich and diversify its product mix and to make its products more competitive.

During the period under review, the Group introduced a number of data card products. Market response to them was good.

In response to the increasing popularity of TD-SCDMA and improvements in 3G network technologies and platform in China, the Group will capture the opportunities brought about by these developments by strengthening efforts in the research and development of 3G products, OMS-based handsets and multi-functional handsets.

## **OUTLOOK**

Looking ahead, the management believes that the global economy will maintain satisfactory growth in 2010. Although the road to recovery will not be easy, the handset sector is expected to emerge from the doldrums caused by the financial crisis and achieve modest growth amid a favorable operating environment.

Confronted with opportunities and challenges, the Group will take a pragmatic approach to expand its business, exercise stringent control of inventories and costs and enhanced its risk management. While consolidating the development of low-end handsets business, it will gradually explore the mid to high-end sector in order to extend its value chain and improve profitability. Meanwhile, it will energetically strengthen research and development of 3G products, OMS-based handsets, data cards and multi-functional handsets, with an aim to enrich product mix and the competitiveness of its products.

The Group will further deepen and expand strategic cooperation with major telecommunication operators in the world. In addition to its own brand business, the Group will also actively expand ODM operation to propel overall sales growth and operating efficiency.

The management is confident that with the joint effort of management and all staff members, the Group's operating results will continually to be improved, thereby laying a solid foundation for the sustainable and healthy growth in its business. The Group will create greater returns to shareholders for their long-term support to it.

## **Financial Review**

### **Results**

For the three months ended 31 March 2010, the Group's unaudited consolidated revenue amounted to HK\$1,474 million (2009: HK\$615 million), representing a year-on-year increase of 140% as compared to the same period last year.

The Group's gross profit margin rose to 20% from 14% in the same period of last year, despite the keen competition and general declining product prices.

EBITDA and profit attributable to owners of the parent were HK\$85 million and HK\$70 million respectively (2009: LBITDA before effect of convertible bonds<sup>1</sup> and loss attributable to shareholders were HK\$16 million and HK\$53 million respectively). Basic earnings per share was HK6.54 cents (2009 (restated): basic loss per share was HK5.83 cents).

### **Inventory**

The Group's inventory (only included finished goods) turnover period was 20 days (2009: 23 days).

### **Trade Receivables**

Credit period was 60-90 days on average and the trade receivable (including trade receivables and factored trade receivables) turnover was 93 days (2009 (restated): 83 days).

### **Significant Investments and Acquisition**

There was no significant investment and acquisition for the three months ended 31 March 2010.

### **Fund Raising**

There was no fund raising for the three months ended 31 March 2010.

### **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 balances as at 31 March 2010 amounted to HK\$1,123 million, of which 20% were in Renminbi, 64% in US dollars, 9% in Euro and 7% in Hong Kong dollars & other currencies for the operations. As at 31 March 2010, the Group's pledged deposits amounted to HK\$2,353 million. The Group's total interest-bearing borrowings as at 31 March 2010 were HK\$2,768 million, in which the interest bearing bank and other borrowings were HK\$2,591 million (which included those interest-bearing borrowing for RMB foreign exchange program amounting to HK\$2,364 million) and bank advances on factored trade receivables were about HK\$177 million. The Group's financial position remained healthy, with total assets of HK\$6,404 million. The Group had a gearing ratio of 43% at the end of the period (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 10% (31 December 2009: 11%).

|              |   |
|--------------|---|
| <i>Note:</i> |   |
| <i>1</i>     | <i>The effects of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.</i> |

**Pledge of Deposits**

Deposit balance of approximately HK\$2,353 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\$2,309 million and retention guarantee for factored trade receivables of approximately HK\$44 million.

**Capital Commitment and Contingent Liabilities**

As at the end of the reporting period, the Group had no significant capital commitments contracted but not provided (31 December 2009: Nil).

The Group had no contingent liabilities for the three months ended 31 March 2010.

**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 6,200 employees as at 31 March 2010. Total staff costs for the period under review were approximately HK\$140 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 period.

**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 three months ended 31 March 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. 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 period under review.

## **AUDIT COMMITTEE**

The unaudited consolidated results for the three months ended 31 March 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 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  
28 April 2010

*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, Ms. Xu Fang and Mr. Yang Xinping, Charles, being the non-executive directors; Mr. Lau Siu Ki, Mr. Liu Chung Laung and Mr. Shi Cuiming, being the independent non-executive directors.*