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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 2009

FINANCIAL HIGHLIGHTS			
<i>Unaudited results for the three months ended 31 March</i>			
	2009 (HK\$'000)	2008 (HK\$'000)	Change
Turnover	614,549	1,214,339	-49%
Gross Profit	85,519	214,405	-60%
E(L)BITDA before effect of convertible bonds*	(15,522)	23,642	N/A
Profit/(loss) before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds	(42,388)	827	N/A
Changes in fair value of the derivative component of convertible bonds	(6,246)	29,418	N/A
Interest on convertible bonds	(4,717)	(9,949)	-53%
Profit/(Loss) Attributable to Equity Holders of the Parent	(53,354)	20,170	N/A
Basic Earnings/(Loss) per share (HK cents)**	(7.46)	0.28	N/A

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

** As approved by the Extraordinary General Meeting held on 22 January 2009, every 10 shares of par value HK\$0.1 were consolidated into 1 share, taking effect from 23 January 2009. The loss per share for the three months ended 31 March 2009 is calculated with the number of shares after consolidation, while the earning per share of the same period of 2008 is calculated without taking into account of share consolidation stated above.

OPERATIONAL HIGHLIGHTS

- Total number of handsets sold was 2.3 million in the first quarter of 2009, representing a decrease of 34% over the fourth quarter of 2008.
- Loss before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds was HK\$42.4 million in the first quarter of 2009, as compared to a gain of HK\$0.8 million in the first quarter of last year.
- Restructuring of the Group has been successfully completed, together with a well responsive product portfolio, the Group is ready to tackle the challenges in 2009.

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 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:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 31 March	
		2009 (Unaudited) HK\$’000	2008 (Unaudited) HK\$’000
REVENUE	3	614,549	1,214,339
Cost of sales		(529,030)	(999,934)
Gross profit		85,519	214,405
Other income and gains	3	61,497	22,786
Research and development costs		(51,297)	(41,386)
Selling and distribution costs		(61,879)	(87,673)
Administrative expenses		(57,992)	(101,420)
Other operating expenses		(472)	(456)
Finance costs excluding interest on convertible bonds	5	(17,138)	(5,221)
Share of losses of an associate		(484)	-
Share of losses of a jointly controlled entity		(142)	(208)
		(42,388)	827
Changes in fair value of the derivative component of convertible bonds		(6,246)	29,418
Interest on convertible bonds	5	(4,717)	(9,949)
PROFIT/(LOSS) BEFORE TAX	4	(53,351)	20,296
Tax	6	(3)	(126)
PROFIT/(LOSS) FOR THE PERIOD		(53,354)	20,170
Attributable to:			
Equity holders of the parent		(53,354)	20,170
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	7		
Basic		(7.46)	0.28
Diluted		(7.46)	0.28

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		242,657	261,608
Prepaid land lease payments		16,221	16,404
Intangible assets		52,029	49,690
Deferred tax assets		26,549	26,789
Interest in an associate		22,198	-
Goodwill		146,856	146,856
Available-for-sale investments		20,227	20,244
Interest in a jointly controlled entity		3,794	3,934
Other non-current assets		2,360	2,367
		<hr/>	<hr/>
Total non-current assets		532,891	527,892
CURRENT ASSETS			
Inventories		249,046	229,998
Trade receivables	8	681,792	836,819
Factored trade receivables		41,796	153,392
Notes receivable		10,000	16,958
Prepayments, deposits and other receivables		329,441	253,971
Due from related companies		64,669	17,376
Tax recoverable		11,095	29,347
Derivative financial instruments		132,387	143,802
Pledged deposits		1,427,122	1,670,499
Cash and cash equivalents		349,758	663,437
		<hr/>	<hr/>
Total current assets		3,297,106	4,015,599
CURRENT LIABILITIES			
Interest bearing bank and other borrowings		1,242,492	1,752,930
Trade and notes payables	9	449,617	590,654
Bank advances on factored trade receivables		41,796	153,392
Derivative financial instruments		49,619	68,897
Tax payable		439	440
Other payables and accruals		442,182	557,640
Provision for warranties		43,286	59,406
Due to related companies		440,098	144,606
		<hr/>	<hr/>
Total current liabilities		2,709,529	3,327,965
NET CURRENT ASSETS		<hr/>	<hr/>
		587,577	687,634
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/>	<hr/>
		1,120,468	1,215,526

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		31 March 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,120,468</u>	<u>1,215,526</u>
NON-CURRENT LIABILITIES			
Retirement indemnities		2,409	2,367
Long service medals		970	1,030
Convertible bonds	10	92,699	142,058
Interest bearing bank and other borrowings		<u>4,167</u>	<u>5,268</u>
Total non-current liabilities		<u>100,245</u>	<u>150,723</u>
Net assets		<u>1,020,223</u>	<u>1,064,803</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	11	715,050	715,050
Shares held for Share Award Scheme		(47,823)	(47,823)
Reserves		<u>352,996</u>	<u>397,576</u>
Total equity		<u>1,020,223</u>	<u>1,064,803</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 HKFRS 8 and HKAS 1(Revised) which result in new or amended disclosures, 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 2008.

2. SEGMENT INFORMATION

Three months ended 31 March 2009

	Overseas HK\$’000	China HK\$’000	Adjustments & eliminations HK\$’000	Consolidated HK\$’000
Revenue				
External customers	515,631	98,918	-	614,549
Results				
Depreciation and amortisation	7,625	13,820	-	21,445
Segment profit/(loss) ¹	17,022	(8,113)	(51,297)	(42,388)
Assets				
Capital expenditure ⁴	1,055	2,520	17,093	20,668
Operating assets	1,387,753	2,268,839	173,405²	3,829,997
Operating liabilities	1,110,713	1,606,362	92,699³	2,809,774
Non-current assets⁵	56,981	195,878	41,827	294,686

¹ Segment operating loss is before fair value loss of the derivative component of convertible bonds HK\$6,246,000 and interest on convertible bonds HK\$4,717,000 and does not include research and development costs HK\$51,297,000.

² Segment assets do not include goodwill HK\$146,856,000 and deferred tax assets HK\$26,549,000.

³ Segment liabilities do not include convertible bonds HK\$92,699,000.

⁴ Segment capital expenditure excludes additions of capitalised research and development cost HK\$17,093,000.

⁵ Segment non-current assets for this purpose exclude capitalised research and development cost HK\$41,827,000.

2. SEGMENT INFORMATION (continued)

Three months ended 31 March 2008

	Overseas HK\$'000	China HK\$'000	Adjustments & eliminations HK\$'000	Consolidated HK\$'000
Revenue				
External customers	1,088,433	125,906	-	1,214,339
Results				
Depreciation and amortisation	7,050	14,007	-	21,057
Segment profit/(loss) ¹	49,676	(7,463)	(41,386)	827
Assets				
Capital expenditure ⁴	2,324	2,878	20,028	25,230
31 December 2008				
Operating assets	1,708,736	2,661,110	173,645 ²	4,543,491
Operating liabilities	1,316,577	2,020,053	142,058 ³	3,478,688
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\$29,418,000 and interest on convertible bonds HK\$9,949,000 and does not include research and development costs HK\$41,386,000.

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\$20,028,000.

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

The largest customer accounted for approximately 11% of the total revenue for the three months ended 31 March 2008.

No customer accounted for 10% or more of the total revenue for the three month 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 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 three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue		
Sale of mobile phones and related components	<u>614,549</u>	<u>1,214,339</u>
Other income and gains		
Interest income	11,717	3,646
VAT refund #	6,368	5,695
Value-added service income	1,157	2,003
Exchange gain, net	17,033	10,141
Gain on disposal of items of property, plant and equipment	699	-
Gain on buyback of convertible bonds	22,229	-
Others	<u>2,294</u>	<u>1,301</u>
Other income and gains	<u>61,497</u>	<u>22,786</u>

#During the three months ended 31 March 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/(crediting):

	For the three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	20,203	19,827
Prepaid land lease recognised	183	183
Amortisation of computer software and intellectual property	1,242	1,230
Research and development costs:		
Deferred expenditure amortised	17,093	6,419
Current period expenditure	34,205	34,967
Gain on disposal of items of property, plant and equipment	699	-

5. FINANCE COSTS

	For the three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans, and other loans wholly repayable within five years	7,368	2,662
Interest on discounted notes and factored trade receivables	9,770	2,559
Finance costs excluding interest on convertible bonds	17,138	5,221
Interest on convertible bonds*	4,717	9,949
Total finance costs	21,855	15,170

* 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 three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Current period provision:		
The PRC	3	5
Brazil	-	121
	<hr/>	<hr/>
Tax charge for the period	<u>3</u>	<u>126</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) 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) 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% as of 2010. The assets tax law was repealed upon enactment of LIETU.

6. TAX (continued)

In 2008 and 2009, TCT Mobile-Telefonos LTDA (formerly known as T&A Mobile Phones-Comercio de Telefonos Ltda) 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. 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 three months ended 31 March	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) 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>(53,354)</u>	<u>20,170</u>
<u>Shares</u>	Number of shares	
	2009	2008
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	715,049,870	7,180,286,865
Effect of dilution - weighted average number of ordinary shares: Assumed issuance upon the exercise of share options	<u>-</u>	<u>61,567,930</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>7,241,854,795</u>

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

The calculation of the diluted loss per share for the three months ended 31 March 2009 has also taken into account the convertible bonds and 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. Because the diluted loss per share amount is decreased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the loss per share for the period and were ignored in the calculation of diluted loss per share.

8. 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:

	31 March 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within 3 months	420,653	643,608
From 4 to 12 months	245,249	195,604
Over 12 months	<u>34,776</u>	<u>20,333</u>
	700,678	859,545
Impairment loss of trade receivables	<u>(18,886)</u>	<u>(22,726)</u>
	<u>681,792</u>	<u>836,819</u>

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:

	31 March 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Within 6 months	427,539	377,280
From 7 to 12 months	4,804	211,484
More than 1 year	<u>17,274</u>	<u>1,890</u>
	<u>449,617</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.

10. 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. Accordingly, the conversion price of the Convertible Bonds was adjusted to HK\$3.2 per share.

Due to several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Company is HK\$ while the conversion of the Convertible Bonds is 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 statement of comprehensive income 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 the statement of comprehensive income.

10. CONVERTIBLE BONDS (continued)

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. For the three months ended 31 March 2009, the fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes model with the major inputs used in the model as follows:

(i) Call option held by the Company – Convertible Bonds – US\$15.4 million

	<u>Parameter</u>	1 June 2007	31 March 2009
a)	Bond price	US\$861.94	US\$1,150.39
b)	Exercise price	US\$1,206.83	US\$1,088.52
c)	Risk-free rate	4.446%	0.593%
d)	Expected life	40 months	18 months
e)	Volatility	20.906%	121.57%

(ii) Conversion option held by the bondholder – Convertible Bonds – US\$15.4 million

	<u>Parameter</u>	1 June 2007	31 March 2009
a)	Stock price	HK\$0.355	HK\$0.475
b)	Exercise price	HK\$0.3275	HK\$3.200
c)	Risk-free rate	4.401%	0.586%
d)	Expected life	29 months	18 months
e)	Volatility	52.02%	80.48%

(iii) Put option held by the bondholder – Convertible Bonds – US\$15.4 million

	<u>Parameter</u>	1 June 2007	31 March 2009
a)	Bond price	US\$861.94	US\$1,150.39
b)	Exercise price	US\$1,170	US\$1,170.00
c)	Risk-free rate	4.423%	0.422%
d)	Expected life	34 months	12 months
e)	Volatility	20.906%	194.194%

10. 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 31 March 2009 resulted in a fair value loss of approximately HK\$6 million, which has been recorded as “Changes in fair value of derivative component of Convertible Bonds” in the statement of comprehensive income for the three months ended 31 March 2009.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 31 March 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	-	6,246	6,246
Interest expense	4,717	-	4,717
Amortised issue expense of convertible bonds	267	-	267
Buyback during the period	<u>(38,285)</u>	<u>(22,304)</u>	<u>(60,589)</u>
As at 31 March 2009	<u>75,424</u>	<u>17,275</u>	<u>92,699</u>

Conversion of US\$500,000 of the Convertible Bonds has occurred up to 31 March 2009.

The Company accepted the offers from certain bondholders and partially bought back Convertible Bonds during 2008 and for the three months ended 31 March 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.

The buybacks were financed by internal funding and the directors consider that the partial 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 the conversion, the outstanding principal amount of the Convertible Bonds was US\$15,453,000 as at 31 March 2009.

11. 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 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, adjustments was made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options, and took effect on 23 January 2009.

12. POST STATEMENT OF FINANCIAL POSITION EVENT

Subsequent to end of the reporting period, the conversion price of the Convertible Bonds has been adjusted from the current conversion price of HK\$3.2 per share to HK\$1.84 per share with effect from 2 April 2009 in accordance with the terms and conditions of the Convertible Bonds.

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

Overall demand for handsets slowed down markedly in the first quarter of 2009 whilst the financial tsunami was inundating the global economies. Consumers were more reluctant to spend on new or additional units in the face of the worsening recession. As a consequence, global handset sales fell greatly during the period under review.

Handset sales in mature markets including the United States, Western Europe and Japan further weakened during the period under review, as these regions were firmly in the grip of the credit crunch. Meanwhile, sales performance in the emerging markets remained flat in the first quarter as the financial tsunami took toll on the purchasing power of consumers in the regions. India and China continued to be the driving force for the development of these markets, though the growth pace of both countries will come down this year when compared with previous years.

The PRC government awarded 3G licenses to three telecommunication operators this January, heralding in a milestone for the development of mobile industry in China. The roll-out of long-awaited 3G services will contribute to increasing demand from first-time buyers in the country.

Business Review

After the successful reorganization of both Alcatel brand (“Alcatel”) and TCL brand and the completion of right-sizing, the Company laid a solid foundation for the Group’s sustainable business growth and made it well equipped to tackle the challenges in 2009.

In response to the deteriorating economic conditions, the Group carried out various measures to retain its competitive edges, including the exercise of stringent cost control, clearance of inventories and improvement in operating efficiency. Moreover, it embraced new market opportunities by increasing efforts in research and development.

The Group achieved significant progress in the development of new models of handsets, including the innovative design of mid-end and low-end QWERTY keypad products and touch-screen products. These innovative products are highly received by major operators and customers in the market.

Achievements made by the Group in research and development were widely recognized in the world. During the GSMA Mobile World Congress 2009 held in Barcelona, Spain, “Jade” and “Mini” developed by the Group were greatly appreciated by all the major operators.

Review of Operations

In the first quarter of 2009, the Group sold approximately 2.3 million handsets, representing a decrease of 33% from the same period last year and a decrease of 34% over the previous quarter. The lower sales volume was primarily attributable to the weak market sentiment in overseas market hit by the heightening financial tsunami.

During the period under review, the Group continued to promote sales of entry-level products and beefed up efforts in clearing up inventories piled up at the end of last year, leading to the fall in average selling prices (“ASP”) and margins of the Group’s products. However, the management believes that sales volume is set to improve in the second quarter as the market sentiment began to show signs of improvement recently.

Sales volume breakdown by location:

	Handset and Accessories Unit Sales		
	For the three months ended 31 March		
<i>(’000 units)</i>	2009	2008	Change (%)
Overseas	1,787	3,108	-43%
The PRC	489	266	84%
Total	2,276	3,374	-33%

Europe, Middle East and Africa (“EMEA”)

The Group’s sales volume in the EMEA market in the first quarter decreased by 34% as compared to that of the same period last year. Handset shipment to Russia and Spain was low during the period as the economic crisis wreaked havoc on the economies of both countries. Nevertheless, shipment to them is expected to improve in the second quarter. ASP for the region was maintained in the first quarter because the higher margins of USB modems offset the lower margins of low-end products.

Latin America (“LATAM”)

Shipment to the LATAM market dropped 48% over the same period last year. Consumer confidence further weakened amid the deepening recession, resulting in a stacking of inventories. During the period, the Group strengthened its efforts in clearing up inventories. As the proportion of sales in low-end products slightly increased relative to total sales volume, ASP for the LATAM market decreased by 13% as compared to that of the same period last year.

The PRC

Sales volume in the PRC increased 84% year-on-year in the first quarter. Also, the financial crisis caused a severe blow on the market sentiment. ASP for this market reduced in the first quarter as compared with the same period last year. The decline was mainly due to the fact that the Group focused on the clearance of inventories. However, new models are expected to be launched in the second half of this year.

The management believes that sales volume will pick up in the second quarter on the back of the stimulus measures introduced by the government to boost domestic demand, in particular the subsidy scheme for rural residents to buy home appliances.

Besides, the Group is confident of winning the bids from mobile carriers for delivery of 3G handsets as it possesses extensive experience in the development of TD-SCDMA, W-CDMA and EV-DO based technology and is highly regarded by the major operators in the PRC.

Other Markets

CDMA handsets sales in the period under review increased 27% over the first quarter of 2008. The increase was mainly due to the expansion of the Group into the new market and the implementation of new business model.

As the proportion of sales in mid-end phones increased, ASP for CDMA handsets edged up accordingly in the first quarter. Through effective customer relationship management, the Group successfully enhanced its relationship with operators and distributors.

Product Development

During the period under review, the Group launched four products under the Alcatel brand, i.e. OT-102, OT-103, OT-111 and OT-208. They are all voice-oriented products developed under the existing technological platform. As a result, the investment in their development was relatively low while these products bring greater diversity to customers when compared with their mother products.

In the second quarter, the Group will launch 4 key Value-Cam segment products, which are expected to increase the sales volume and gross profit for the Group's GSM business in 2009.

Following the issue of 3G licenses in China, the Group will roll out a number of 3G products, including U298 TD-SCDMA Feature Phone, U888 TD-SCDMA Smart Phone and U118 TD-SCDMA USB Dongles. In addition, TF100 wireless handsets passed China Mobile's product test and entered the first round of bidding for orders. The Group intends to launch 8 new models of 3G devices in the second quarter. Sales volume and revenue of these products are expected to increase when compared with the first quarter.

Outlook

Looking ahead, 2009 will be a tough year for the handset industry as the financial tsunami continued to impact on the global economy. The management expects a prolonged period of weak consumer spending in the foreseeable future. To cope with the difficulties lying ahead, the Group will step up its efforts in driving sales growth while streamlining its operation by lowering inventory levels and improving cost efficiency to maintain its leading position in the industry.

Demand in the mature markets like Europe and America will remain subdued this year while the emerging markets are expected to have a better performance. Nevertheless, the Group will allocate resources cautiously in exploring business opportunities and expanding the operations in the emerging markets.

While the Group will maintain its price competitiveness for entry-level products, it will leverage on its research and development capabilities to develop more value-added products so as to improve overall ASP and gross profit margin and to create a reasonable return to shareholders.

The completion of the Group's restructuring and right-sizing together with the well responsive product portfolio make us ready to tackle the challenges in 2009.

Financial Review

Results

For the three months ended 31 March 2009, the Group's unaudited consolidated revenue amounted to HK\$615 million (2008: HK\$1,214 million), representing a year-on-year decrease of 49% as compared to the same period last year.

The Group's gross profit margin dropped to 14% from 17% in the same period of 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\$16 million and HK\$53 million respectively (2008: EBITDA before effect of convertible bonds and profit attributable to shareholders were HK\$24 million and HK\$20 million respectively). Loss before the effects of convertible bonds¹ is HK\$42 million. Basic loss per share was HK7.46 cents (2008: basic earnings per share were HK 0.28 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 23 days (same period 2008 (restated): 20 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivable (including trade receivables and factored trade receivables) turnover was 69 days (same period 2008 (restated): 66 days).

Significant Investments and Acquisition

There was no significant investment and acquisition for the three months ended 31 March 2009.

Fund Raising

There was no fund raising for the three months ended 31 March 2009.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period. The cash and cash equivalents balances as at 31 March 2009 amounted to HK\$350 million, of which 42% were in Renminbi, 42% in US dollars, 7% in Euro and 9% in Hong Kong dollars & other currencies for the operations. The Group's financial position remained healthy, with total assets of HK\$3,830 million. The Group had a gearing ratio of 36% at the end of the period (31 December 2008: 45%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings (including those interest-bearing borrowing for RMB foreign exchange program) over total assets. Excluding the interest-bearing borrowing for RMB foreign exchange program, the gearing ratio was 15% (31 December 2008: 16%).

<i>I:</i>	
<i>Note :</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\$1,427 million (31 December 2008: HK\$1,670 million) represented the pledged deposit for certain RMB foreign exchange program of approximately HK\$1,406 million and retention guarantee for factored trade receivables of approximately HK\$21 million.

Capital Commitment and Contingent Liabilities

As at 31 March 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 three months ended 31 March 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 31 March 2009. Total staff costs for the period under review were approximately HK\$85 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 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 three months ended 31 March 2009, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to 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 enquiry have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

AUDIT COMMITTEE

The unaudited consolidated results for the three months ended 31 March 2009 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, 24 April 2009

As at the date of this announcement, the Board comprises Mr. Li Dongsheng, Mr. Yang Xinping, Charles, Mr. Wong Toe Yeung, Mr. Liu Fei and Mr. Yu Enjun, being the executive directors; Mr. Bo Lianming and Mr. Huang Xubin, being the non-executive directors; Mr. Lau Siu Ki, Mr. Liu Chung Laung and Mr. Shi Cuiming, being the independent non-executive directors.