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TCL Communication Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS			
<i>Audited results for the year ended 31 December</i>			
	2009 (HK\$'000)	2008 (HK\$'000)	Change
Turnover	4,360,886	4,538,281	-4%
Gross Profit	948,690	811,618	+17%
EBITDA before effect of convertible bonds*	162,807	91,253	+78%
Net profit before effect of convertible bonds*	87,881	372	+23524%
Changes in fair value of the derivative component of convertible bonds	(58,037)	68,078	N/A
Interest on convertible bonds	(6,839)	(39,959)	-83%
Profit Attributable to Owners of the Parent	23,005	28,491	-19%
Basic Earnings per share (HK cents) (as restated)	2.51	3.11	-19%
Proposed final dividend per share (HK cents)	3.50	-	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 16.1 million units in 2009, an increase of 18% over 2008 and significantly exceeding the sales target of 10 million units for the year.
- Despite the impact of the financial tsunami, the Group's sales performance started to recover in June. Sales volume grew remarkably in the fourth quarter, increasing by 100% to 6.8 million units from the same period of 2008. Sales volume of December 2009 hit single-month record high to 2.6 millions units.
- The Group achieved a profit before effect of convertible bonds amounting HK\$88 million for the full year of 2009.
- During the period under review, the Group successfully completed the early repurchase of all outstanding convertible bonds. Moreover, it completed a right issue in January of 2010. As a result, the financial position has been strengthened with sufficient cash flow.
- The Group will continue to expand the Original Design Manufacturer (ODM) business, which is expected to experience vigorous growth and boost overall sales volume.
- The Group will solidify the existing low-end handset and accessories business and explore the mid to high-end product segments.

The board of directors (the “Board”) of TCL Communication Technology Holdings Limited (“TCT” or the “Company”) announced the audited consolidated results and financial position of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009, with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December		Three months ended 31 December	
		2009 (Audited) HK\$'000	2008 (Audited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	5	4,360,886	4,538,281	1,960,311	1,079,393
Cost of sales		(3,412,196)	(3,726,663)	(1,444,658)	(903,706)
Gross profit		948,690	811,618	515,653	175,687
Other income and gains	5	169,964	273,391	15,478	115,365
Research and development costs		(247,113)	(262,924)	(53,761)	(98,886)
Selling and distribution costs		(366,084)	(389,388)	(156,238)	(92,331)
Administrative expenses		(340,366)	(393,191)	(166,669)	(127,126)
Other operating expenses		(25,601)	(1,588)	(23,161)	2,663
Finance costs excluding interest on convertible bonds	7	(39,139)	(28,393)	(6,664)	(8,235)
Share of losses of associates		(1,455)	-	(353)	-
Share of profit/(loss) of a jointly-controlled entity		59	(1,399)	284	(110)
		98,955	8,126	124,569	(32,973)
Changes in fair value of the derivative component of convertible bonds		(58,037)	68,078	-	(27,226)
Interest on convertible bonds	7	(6,839)	(39,959)	-	(16,462)
PROFIT/(LOSS) BEFORE TAX	6	34,079	36,245	124,569	(76,661)
Income tax expense	8	(11,074)	(7,754)	(11,043)	(6,824)
PROFIT/(LOSS) FOR THE YEAR		23,005	28,491	113,526	(83,485)
Attributable to:					
Owners of the parent		23,005	28,491	113,526	(83,485)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) (as restated)	10				
Basic		2.51	3.11		
Diluted		N/A	0.11		

Details of the dividends payable and proposed for the year are disclosed in note 9 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2009 (Audited) HK\$'000	2008 (Audited) HK\$'000
PROFIT FOR THE YEAR	<u>23,005</u>	<u>28,491</u>
OTHER COMPREHENSIVE INCOME		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	16,115	(6,509)
Reclassification adjustments for gains included in the consolidated income statement	<u>(9,606)</u>	<u>-</u>
	6,509	(6,509)
Exchange differences on translation of foreign operations	<u>(9,023)</u>	<u>18,779</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(2,514)</u>	<u>12,270</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>20,491</u></u>	<u><u>40,761</u></u>
Attributable to:		
Owners of the parent	<u>20,491</u>	<u>40,761</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2009 HK\$'000	2008 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		220,211	261,608
Prepaid land lease payments		15,671	16,404
Intangible assets		54,876	49,690
Deferred tax assets		17,276	26,789
Goodwill		146,856	146,856
Available-for-sale investments		20,245	20,244
Interests in associates		8,801	-
Interest in a jointly-controlled entity		3,992	3,934
Other non-current assets		152	2,367
		<u>488,080</u>	<u>527,892</u>
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		448,181	229,998
Trade receivables	11	1,304,069	836,819
Factored trade receivables		224,223	153,392
Notes receivable		4,142	16,958
Prepayments, deposits and other receivables		282,496	253,971
Due from related companies		14,289	17,376
Tax recoverable		4,272	29,347
Derivative financial instruments		34,593	143,802
Pledged deposits		1,187,336	1,670,499
Restricted deposits received from rights issue excess application		1,604,495	-
Cash and cash equivalents		1,169,750	684,382
		<u>6,277,846</u>	<u>4,036,544</u>
TOTAL current assets			
CURRENT LIABILITIES			
Interest bearing bank and other borrowings		1,460,596	1,866,500
Trade and notes payables	12	1,073,764	590,654
Bank advances on factored trade receivables		224,223	153,392
Derivative financial instruments		7,723	68,897
Tax payable		425	440
Other payables and accruals		737,149	557,817
Other payable arising from rights issue excess application		1,604,495	-
Provision for warranties		63,390	59,406
Due to related companies		138,246	51,804
		<u>5,310,011</u>	<u>3,348,910</u>
TOTAL current liabilities			
NET CURRENT ASSETS		<u>967,835</u>	<u>687,634</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,455,915</u>	<u>1,215,526</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	2009 HK\$'000	2008 HK\$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,455,915</u>	<u>1,215,526</u>
NON-CURRENT LIABILITIES			
Retirement indemnities		1,351	2,367
Long service medals		959	1,030
Convertible bonds	13	-	142,058
Other payable arising from rights issue		357,812	-
Interest bearing bank and other borrowings		<u>1,092</u>	<u>5,268</u>
Total non-current liabilities		<u>361,214</u>	<u>150,723</u>
Net assets		<u>1,094,701</u>	<u>1,064,803</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	14	715,624	715,050
Shares held for Share Award Scheme		(27,784)	(47,823)
Reserves		369,291	397,576
Proposed final dividends		<u>37,570</u>	<u>-</u>
Total equity		<u>1,094,701</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.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosure – Improving Disclosures about Financial instruments Operating Segments</i>
HKFRS 8	<i>Presentation of Financial Statements</i>
HKAS 1 (Revised)	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 18 Amendment*	<i>Borrowing Costs</i>
HKAS 23 (Revised)	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 13	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 15	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 16	<i>Transfer of assets from Customers (adopted from 1 July 2009)</i>
HK(IFRIC)-Int 18	Amendments to a number of HKFRSs
Improvements to HKFRSs (October 2008)**	

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009)

** The Group adopt all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which are effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

3. CHANGE IN ACCOUNTING ESTIMATIONS

The Group has modified the depreciation treatment of certain fixed assets categories in order to better align this treatment with the observed economic behaviour of assets in these categories. As a result, the projected lives of machinery and office equipment have been extended respectively. These changes in accounting estimates have been applied prospectively. Beginning from May 2009, these modifications have changed depreciation in the aforementioned fixed assets categories, and the effect on the financial performance of the Group for the year end 31 December 2009 is approximately HK\$5.8 million.

4. 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.

Segment assets do not include goodwill, deferred development costs and deferred tax assets as these assets are managed on a group basis.

Segment liabilities do not include convertible bonds as the liability is managed on a group basis.

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.

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009

	Overseas HK\$'000	Mainland China HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	3,873,503	487,383	4,360,886
Intersegment sales	367,574	3,426,243	3,793,817
	<u>4,241,077</u>	<u>3,913,626</u>	<u>8,154,703</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(3,793,817)</u>
Revenue from operations			<u>4,360,886</u>
Segment results	426,297	(80,229)	346,068
<i>Reconciliation:</i>			
Research and development costs			(247,113)
Changes in fair value of the derivative component of convertible bonds			(58,037)
Interest on convertible bonds			<u>(6,839)</u>
Profit before tax			<u>34,079</u>
Segment assets	4,058,109	2,499,514	6,557,623
<i>Reconciliation:</i>			
Goodwill			146,856
Deferred development costs			44,171
Deferred tax assets			<u>17,276</u>
Total assets			<u>6,765,926</u>
Segment liabilities	4,189,582	1,481,643	5,671,225
Total liabilities			<u>5,671,225</u>
Other segment information:			
Share of profit and loss of:			
A jointly-controlled entity	-	59	59
Associates	(31)	(1,424)	(1,455)
Impairment losses recognised in the income statement	8,461	12,647	21,108
Other non-cash expenses	8,173	-	8,173
Depreciation of property, plant and equipment	17,295	42,922	60,217
Amortisation of computer software and intellectual property	2,235	1,618	3,853
Prepaid land lease recognised	-	733	733
Interests in associates	-	8,801	8,801
Interests in a jointly-controlled entity	-	3,992	3,992
Capital expenditure	9,618	19,924	29,542

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2008

	Overseas HK\$'000	Mainland China HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	4,018,618	519,663	4,538,281
Intersegment sales	420,425	2,926,461	3,346,886
	<u>4,439,043</u>	<u>3,446,124</u>	<u>7,885,167</u>
<i>Reconciliation:</i>			
Elimination of intersegment sales			<u>(3,346,886)</u>
Revenue from operations			<u>4,538,281</u>
Segment results	302,136	(31,086)	271,050
<i>Reconciliation:</i>			
Research and development costs			(262,924)
Changes in fair value of the derivative component of convertible bonds			68,078
Interest on convertible bonds			<u>(39,959)</u>
Profit before tax			<u>36,245</u>
Segment assets	1,669,943	2,682,056	4,351,999
<i>Reconciliation:</i>			
Goodwill			146,856
Deferred development costs			38,792
Deferred tax assets			<u>26,789</u>
Total assets			<u>4,564,436</u>
Segment liabilities	1,316,579	2,040,996	3,357,575
<i>Reconciliation:</i>			
Convertible bonds			<u>142,058</u>
Total liabilities			<u>3,499,633</u>
Other segment information:			
Share of loss of:			
A jointly-controlled entity	-	(1,399)	(1,399)
Impairment losses recognised in the income statement	15,929	9,061	24,990
Other non-cash expenses	30,811	-	30,811
Depreciation of property, plant and equipment	20,776	52,994	73,770
Amortisation of computer software and intellectual property	2,148	2,653	4,801
Prepaid land lease recognised	-	828	828
Interests in a jointly-controlled entity	-	3,934	3,934
Capital expenditure	27,776	57,869	85,645

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

No customer accounted for 10% or more of the total revenue for the years ended 31 December 2008 and 2009.

5. 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:

	2009 HK\$'000	2008 HK\$'000
Revenue		
Sale of mobile phones and related components	<u>4,360,886</u>	<u>4,538,281</u>
Other income and gains		
Interest income	39,357	23,837
Subsidy income	5,882	567
VAT refunds*	43,855	37,401
Value-added service income	3,909	7,235
Exchange gain, net	19,930	124,830
Gain on disposal of items of property, plant and equipment	-	23
Gain on repurchase of convertible bonds	44,614	57,444
Gain on sale of patent rights	-	15,500
Others	<u>12,417</u>	<u>6,554</u>
	<u>169,964</u>	<u>273,391</u>

* During the year ended 31 December 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 at a rate of 17%.

6. PROFIT BEFORE TAX

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

	2009 HK\$'000	2008 HK\$'000
Depreciation	60,217	73,770
Prepaid land lease recognised	733	828
Amortisation of computer software and intellectual property	3,853	4,801
Research and development costs:		
Deferred expenditure amortised	72,674	59,676
Current year expenditure	174,439	203,248
	<u>247,113</u>	<u>262,924</u>
Impairment loss of trade receivables	4,008	17,658
Impairment loss of other receivables	4,676	7,332
Impairment loss of interests in an associate	12,424	-
Loss/(gain) on disposal of items of property, plant and equipment	480	(23)

7. FINANCE COSTS

	2009 HK\$'000	2008 HK\$'000
Interest on bank loans, and other loans wholly repayable within five years	28,875	18,338
Interest on discounted notes and factored trade receivables*	10,264	10,055
Finance costs excluding interest on convertible bonds	39,139	28,393
Interest on convertible bonds**	6,839	39,959
Total finance costs	<u>45,978</u>	<u>68,352</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%.

8. INCOME TAX

	2009 HK\$'000	2008 HK\$'000
Current:		
Chare for the year		
The PRC	31	76
Underprovision in prior years		
France	1,180	-
Deferred:		
The PRC	10,967	6,509
Mexico	(1,104)	1,169
	<u>11,074</u>	<u>7,754</u>
Tax charge/(credit) for the year		

No Hong Kong profits tax has been provided (2008: Nil) since no assessable profit arose in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high and new technology enterprise accreditation which expired on 28 May 2005. It was exempt from 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. Profits tax arising from subsidiaries of TCL Mobile has been provided in the Mainland China as taxable income arose during the year.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, was entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and 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 2009 and 2008.

8. 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, 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. No profit tax has been provided in Brazil as no taxable income arose during the year (2008: Nil).

9. DIVIDENDS

	2009	2008
	HK\$'000	HK\$'000
Proposed final – HK\$0.035 per ordinary share	<u>37,570</u>	<u>-</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

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

	2009	2008
	HK\$'000	HK\$'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	23,005	28,491
Interest on convertible bonds	-	19,755
Less: Fair value gain on the derivative component of the convertible bonds	-	(47,195)
	<u>23,005</u>	<u>1,051</u>
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	<u>23,005</u>	<u>1,051</u>
	Number of shares	
<u>Shares</u>	2009	2008
		(Restated)*
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	916,201,795	915,773,107
Effect of dilution – weighted average number of ordinary shares:		
Deemed conversion of all convertible bonds	-	68,717,526
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>916,201,795</u>	<u>984,490,633</u>

* The number of ordinary shares has been adjusted as a result of the ten-to-one share consolidation effective on 23 January 2009. The restatement also takes into account the retrospective adjustment to the number of shares outstanding before the rights issue which completed on 4 January 2010 to reflect the bonus element inherent in the rights issue.

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

For the year ended 31 December 2009, the convertible bonds had no impact on the diluted earnings per share as the convertible bonds have been fully redeemed during the year.

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

11. TRADE RECEIVABLES

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

	2009 HK\$'000	2008 HK\$'000
Within 3 months	1,140,539	643,608
From 4 to 12 months	145,671	195,604
Over 12 months	41,125	20,333
	<hr/>	<hr/>
	1,327,335	859,545
Impairment loss of trade receivables	(23,266)	(22,726)
	<hr/>	<hr/>
	1,304,069	836,819
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12. TRADE AND NOTES PAYABLES

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

	2009 HK\$'000	2008 HK\$'000
Within 6 months	1,067,731	377,280
From 7 to 12 months	175	211,484
More than 1 year	5,858	1,890
	<hr/>	<hr/>
	1,073,764	590,654
	<hr/> <hr/>	<hr/> <hr/>

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

Certain trade and notes payables are secured by the pledged deposits amounting to HK\$3,565,000 (2008: Nil).

13. CONVERTIBLE BONDS

On 2 April 2007 and 1 June 2007, the Company issued zero coupon convertible bonds with aggregate principal amounts 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 10 issued and unissued ordinary shares with a par value of HK\$0.1 each in the share capital of the Company were consolidated into one ordinary share of par value of HK\$1.0 (“Share Consolidation”). Accordingly, the conversion price of the Convertible Bonds was adjusted to HK\$3.2 per share.

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

Due to several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Company being HK\$ while the conversion of the Convertible Bonds being denominated in US\$), the conversion will not result in an 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 of the conversion option and a liability component of the straight debt element.

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

Fair value of the conversion option

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

13. CONVERTIBLE BONDS (continued)

Fair value of the conversion option (continued)

Any change 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 December 2009 resulted in a fair value loss of approximately HK\$58 million, which has been recorded as “Changes in fair value of derivative component of convertible bonds” in the income statement for the year ended 31 December 2009.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 31 December 2009 are as follows:

	Liability component HK\$'000	Derivative component HK\$'000	Total HK\$'000
As at 1 January 2009	108,725	33,333	142,058
Change in fair value of the derivative component of convertible bonds	-	58,037	58,037
Interest expense	6,839	-	6,839
Amortised issue expense of convertible bonds	376	-	376
Repurchased during the year	<u>(115,940)</u>	<u>(91,370)</u>	<u>(207,310)</u>
As at 31 December 2009	<u>-</u>	<u>-</u>	<u>-</u>

Conversion of US\$500,000 of the Convertible Bonds has occurred as at 31 December 2009.

The Company accepted the offers from the bondholders and fully repurchased the Convertible Bonds during 2008 and 2009.

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

As a result of the repurchase and conversion, there was no outstanding principal amount of Convertible Bonds as at 31 December 2009.

14. SHARE CAPITAL

	Number of shares	Issued share capital HK\$'000	Share premium HK\$'000
Authorised:			
Ordinary shares of HK\$0.1 each at 1 January 2008 and 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	<u>2,000,000,000</u>	<u>2,000,000</u>	
Issued and fully paid or credited as fully paid:			
Ordinary shares of HK\$0.1 each at 1 January 2008	7,186,894,710	718,689	1,584,738
Share options exercised	26,351,999	2,635	5,952
Share repurchased	(62,748,000)	(6,274)	(13,732)
Reclassification of vested shares	<u>-</u>	<u>-</u>	<u>(1,249)</u>
At 31 December 2008 and 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(b)	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	<u>715,623,870</u>	<u>715,624</u>	<u>1,551,001</u>

During the year, 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) 574,000 share options were exercised during the year 2009 at subscription prices ranging from HK\$2.108 to HK\$2.32 per share, resulting in the issue of 574,000 shares of HK\$1 each for a total cash consideration of HK\$1,234,000.

15. EVENT AFTER THE REPORTING PERIOD

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. As a result of the rights issue, adjustments will need to be made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options granted pursuant to the Share Option Scheme in accordance with the rules of the Share Option Scheme and the supplementary guidance issued by the Stock Exchange. The following tables set out the adjustments that have been made with effect from 6 January 2010.

Grant date	Before the rights issue		After the rights issue	
	Exercise per share HK\$	No. of outstanding share options	Exercise per share HK\$	No. of outstanding share options
31 May 2005	3.804	6,559,689	2.973	8,389,665
16 January 2006	2.108	7,171,900	1.648	9,172,857
30 June 2006	2.320	11,863,800	1.813	15,173,798
5 July 2007	3.100	27,983,477	2.423	35,790,792

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Global demand for handsets remained sluggish amid the economic slowdown around the world due to the financial tsunami. The handset industry experienced a difficult time during the first half of 2009. Nevertheless, as the global economy recovered, handset sales volume began to pick up in the third quarter and made further improvement in the fourth quarter.

During the period under review, the economy in China grew briskly. Restructuring of the telecommunications sector and the increase in mobile service operators propelled the development of the handset industry in China. Meanwhile, the expansion of 3G services drove further growth in the domestic handset sector.

Business Review

In the face of fierce competition in the market, the Group completed a business adjustment in 2009. The resources of its two major brands Alcatel and TCL, such as research and development, production and marketing, were combined to optimize the business structure. As a result, the Group could more swiftly respond to developments in the market and changes in demand and capture opportunities brought about by the global economic recovery. Moreover, it further enhanced cost control, risk management and product competitiveness and made great improvements in operating efficiency.

The Group also stepped up efforts in bolstering cooperation with major telecommunications operators around the world. While continuing to expand the low-end handset operation, it moved on to develop and market mid to high-end products to enhance profitability and rolled out more competitive and innovative products to the marketplace. These products brought customers increasingly enriched, personalized value-added services.

During the period under review, the Group launched a series of handsets and accessories. They received an enthusiastic response from the market and were warmly accepted by a number of major telecommunications operators, in particular Alcatel's OT-708 ("One Touch MINI") and OT-800 ("Jade") series. These two models were very popular among customers and in great demand.

Review of Operations

In 2009, the Group sold a total of 16.1 million units of handsets and accessories, an increase of 18% over 2008. The overall operating environment was very difficult last year, as the financial tsunami dealt a heavy blow to the global economy. However, as the macro economic conditions gradually improved the Group's sales performance began showing signs of improvement in June and reversed the downtrend recorded in the first two quarters. Sales results in the fourth quarter were very promising and totaled 6.8 million units, a surge of 100% over the same period in 2008.

Overseas sales volume reached 13.3 million units during the period under review, an increase of 12% over 2008; sales volume in China totaled 2.8 million units, an increase of 61% over 2008. Sales performance in both of overseas and China markets resumed to the levels seen before the financial tsunami.

During the period under review, the Group successfully completed the early repurchase of all its outstanding convertible bonds, helping to further strengthen its financial position. On top of that, it completed a right issue in January 2010 and successfully raised proceeds of approximately HK\$358 million. The fund-raising exercise enables the Group to increase production capacity, which is helpful to further expand ODM operations.

Review of Operations (continued)

Sales volume breakdown by location:

	Handset and Accessories Unit Sales		
	For the year ended 31 December		
<i>('000 units)</i>	2009	2008	Change (%)
Overseas	13,351	11,969	+12%
The PRC	2,772	1,726	+61%
Total	16,123	13,695	+18%

EUROPE, MIDDLE EAST AND AFRICA (“EMEA”)

Shipments to Europe, the Middle East and Africa totaled 6.4 million units in 2009, a 19% increase over 2008. The overwhelming market response to the OT-708 (“One Touch MINI”) series predominately drove business growth in these areas. Moreover, a number of models such as the OT-103, OT-203, OT-211, OT-303 and OT-363 received warm responses from customers and sales of data card products also achieved satisfactory growth. During the period under review, the average selling price of products in EMEA remained stable.

In 2009, the Group furthered cooperation with major telecommunications operators in the region. Its sales performance in markets such as Britain, Germany and Romania was promising.

LATIN AMERICA (“LATAM”)

Sales volume in Latin America for 2009 reached 6.4 million units, an increase of 7% over 2008. During the period under review, the OT-800 (“Jade”) and OT-708 (“One Touch MINI”) handsets were the best-selling products in the region and appealed to customers. They were particularly successful in Mexico. The sales performance of the OT-103 and OT-203 handsets was also rosy.

The Group continued to expand its penetration into the Brazilian and Central American markets and the outlook for 2010 is optimistic.

The PRC

During the period under review, the Group achieved a satisfactory sales performance in China. A total of 2.8 million units of handsets and accessories were sold last year, an increase of 61% over 2008.

The Group carried out a series of effective measures to streamline its business structure in the China market and launched a number of more competitive low to mid-end products. It actively cultivated cooperation with major domestic telecommunications operators, thus helping the domestic business to grow steadily and healthily.

OTHER MARKETS

The Group actively expanded business in the Asia Pacific in 2009 and successfully explored markets in Indonesia, Thailand, Israel, Malaysia, Vietnam, Singapore, Australia and New Zealand, etc. with promising sales performance.

In 2009, the Group sold a total of 610,000 CDMA handsets, an increase of 30% over 2008. While enhancing cooperation with local telecommunications operators, the Group adopted market-driven pricing strategy. As a result, both the sales volume and competitiveness of its CDMA handsets were substantially improved. Moreover, the Group established a foothold in Indonesia, Fiji and Papua New Guinea and deepened cooperation with major operators. On top of that, it successfully expanded into Vietnam.

Product Development

The Group introduced a total of 17 models of Alcatel handsets and two models of TCL handsets last year. Moreover, through cooperation with famous brands of fashions & accessories, it enriched handset design and made its product mix more diversified and competitive.

In 2009, The Group launched a series of low to mid-end handsets to address the different needs of the low to mid-end market. They included thirteen low-end products (such as OT-106, OT-206, OT-102, OT-203, OT-303, OT-363 series, etc.), two camera handsets (OT-600 and OT 660 series), and two mobile messaging handsets, i.e., OT-800 (“JADE”) and OT-708 (“One Touch MIN”). The enriched product mix gave a boost to the Group’s overall sales volume.

While the OT-203 series was very popular among telecommunications operators in emerging markets, the OT-800 (“Jade”) series became one of the best selling products for the Group in 2009 with orders received from major telecommunications operators around the world. The QWERTY keypad of this mid-end product was tailor-made for messaging amongst youngsters. The Group made use of it to bring mobile Internet communication to the mid-end market. Meanwhile, the entry level touch screen, OT-708 (“One Touch MINI”), enabled customers to enjoy touch phone services at an entry-level price, and received favorable response from major telecommunications operators around the world.

During the period under review, the Group launched two TCL brand handsets, i.e., V300 and U688 TD-SCDMA hands.

In 2009, the Group achieved promising sales for its 3G accessories. It rolled out a number of 3G data cards, including the 3G HSDPA USB dongle, the EVDO REV A USB dongle, 3G WIFI routers and the 3G HSUPA USB dongle. They were well received by customers.

FUTURE OUTLOOK

Looking ahead, the global economy is expected to recover steadily. The handset industry, which bottomed for a prolonged period, will move on to an uptrend and experience modest growth. The Group will further strengthen and extend cooperation with major telecommunications operators. While consolidating the low-end handset and accessory business, we will prudently explore mid to high-end markets. Moreover, we will improve and enrich our product mix so as to improve product competitiveness and sales performance.

During the period under review, the Group vigorously expanded ODM operation and achieved satisfactory results through cooperation with major telecommunications operators in the world. We envisage stepping up efforts to receive more orders for the ODM business, which is forecast to experience robust growth in 2010 and hence drive overall sales volume and operating efficiency for the Group.

In order to capture market opportunities arising from the burgeoning 3G sector, the Group will enhance efforts in R&D of 3G handsets and accessories, with the intention of launching Android-based and touch screen handsets. Meanwhile, we will continue to diversify our product line by stepping up efforts in developing products like data cards and multifunctional phones, etc. We will relentlessly strive to enrich the product line, improve sales performance and bring a better mobile communication experience to customers.

Despite an operating environment severely battered by the global economic downturn last year, management and the entire staff worked hand in hand to overcome various difficulties and challenges. We managed to achieve a gradual recovery in overall sales volume and operating results in the second half of 2009. These results are very encouraging. In 2010, we will continue to raise our operating efficiency and to invigorate cost control and risk management, laying a solid foundation for sustainable business growth.

Financial Review

Results

For the year ended 31 December 2009, the Group's audited consolidated revenue amounted to HK\$4,361 million (2008: HK\$4,538 million), representing a year-on-year decrease of 4% as compared to that of last year.

The Group's gross profit margin rose to 22% from 18% in the same period of last year, despite the keen competition and general declining product prices.

EBITDA before effect of convertible bonds and profit attributable to owners of the parent were HK\$163 million and HK\$23 million respectively (2008: EBITDA before effect of convertible bonds and profit attributable to shareholders were HK\$91 million and HK\$28 million respectively). Profit before the effects of convertible bonds¹ is HK\$88 million (2008: HK\$0.4 million). Basic earnings per share was HK\$2.51 cents (2008 (restated): HK\$3.11 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 18 days (2008: 19 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivable (including trade receivables and factored trade receivables) turnover was 81 days (2008 (restated): 85 days).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31 December 2009.

Fund Raising

Except for the aforesaid rights issue, there was no other fund raising for the year ended 31 December 2009.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year under review. The Group's principal financial instruments comprise cash and cash equivalents, interest bearing bank and other borrowings and bank advances on factored trade receivables. The cash and cash equivalents balances as at 31 December 2009 amounted to HK\$1,170 million, of which 32% were in Renminbi, 26% in US dollars, 10% in Euro and 32% in Hong Kong dollars & other currencies for the operations. The Group's total interest-bearing borrowings as at 31 December 2009 were HK\$1,686 million, in which the interest bearing bank and other borrowings were HK\$1,462 million (which included those interest-bearing borrowing for RMB foreign exchange program amounting to HK\$1,035 million) and bank advances on factored trade receivables were about HK\$224 million. The Group's financial position remained healthy, with total assets of HK\$6,766 million. The Group had a gearing ratio of 25% at the end of the year (31 December 2008 (restated): 47%) 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 11% (31 December 2008 (restated): 20%).

Note:

1

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

Pledge of Deposits

Deposit balance of approximately HK\$1,187 million (31 December 2008: HK\$1,670 million) represented the pledged deposit for interest bearing bank borrowings, banking facilities and other financial instruments of approximately HK\$1,114 million and retention guarantee for factored trade receivables of approximately HK\$73 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 (2008: Nil).

At the end of the reporting period, contingent liabilities not provided for the financial statements were as follows:

	Group		Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	-	-	455,098	250,000
	<u>-</u>	<u>-</u>	<u>455,098</u>	<u>250,000</u>

As at 31 December 2009, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$302,583,000 (2008: HK\$41,580,000).

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 4,700 employees as at 31 December 2009. Total staff costs for the year under review were approximately HK\$396 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 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 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 audited consolidated results for the year ended 31 December 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
10 March 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.