Annual Report 2010

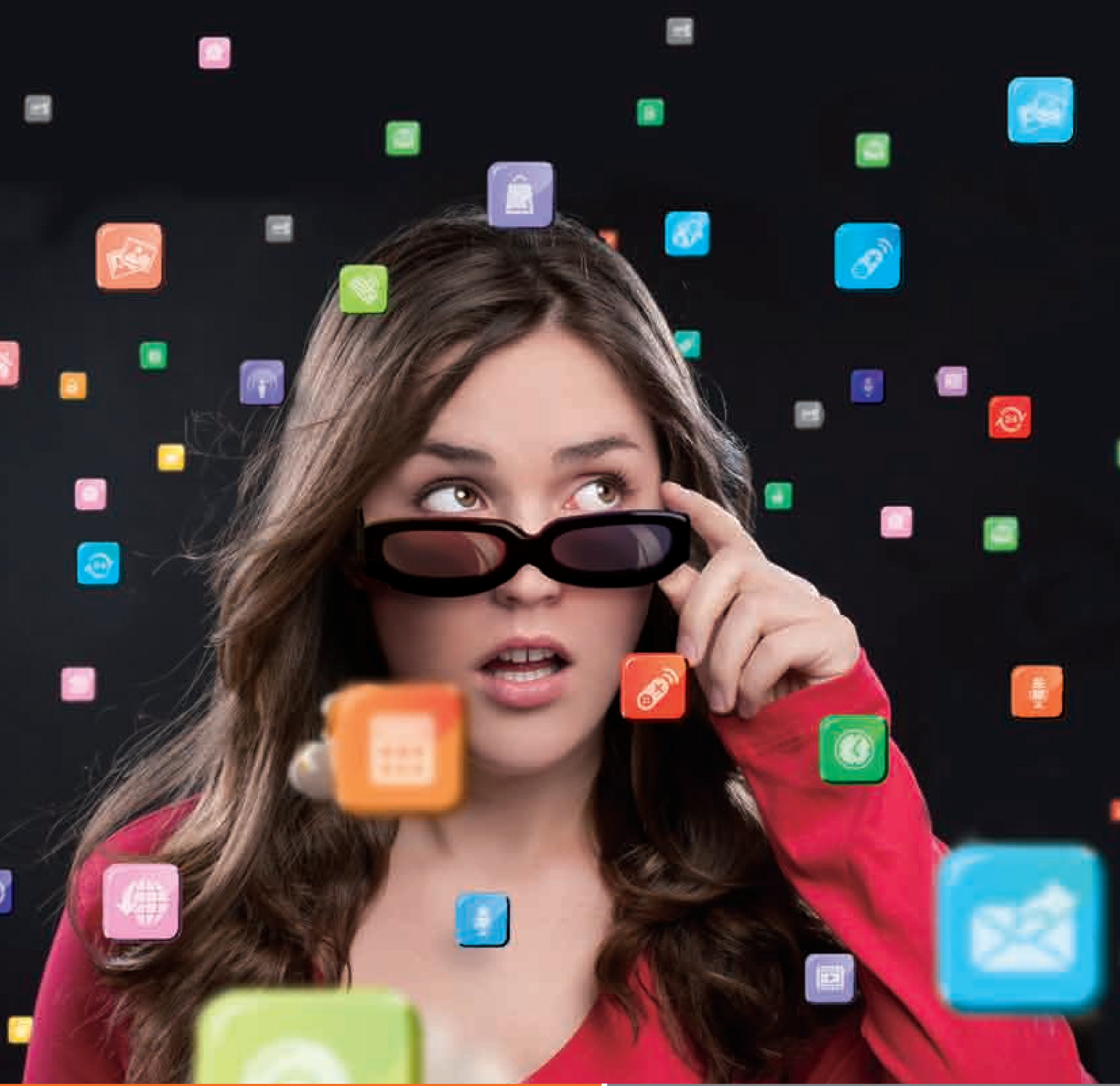
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 01070

16TH ASIAN GAMES
Guangzhou 2010

TCL
创意感动生活
The Creative Life

The official partner of 2010 Guangzhou Asian Games



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Corporate Profile

TCL Multimedia Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") is one of the world's largest global TV manufacturers and its products are sold all over the world. Headquartered in China, the Group operates its manufacturing plants and R&D centres across all major continents. The ultimate holding company of the Company is TCL Corporation.

FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY

(HK$ Million)	2010	2009
Turnover	26,949	30,343
Gross profit	3,765	4,924
Gross profit margin (%)	14.0%	16.2%
Net profit/(loss)	(983)	397
Basic EPS/(LPS) (HK cents)	(92.05)	39.15
Dividend per share (HK cents)	–	12.00

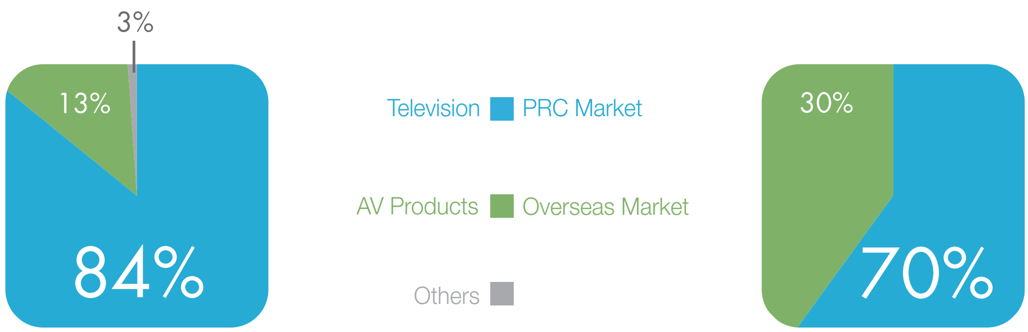
FINANCIAL POSITION

(HK$ Million)	2010	2009
Property, plant and equipment	1,498	1,603
Cash and bank balances	2,133	2,079
Total assets	18,501	14,921
Total liabilities	15,251	11,209
Interest-bearing debts	5,719	2,260
Net assets	3,250	3,712

KEY FINANCIAL INDICATORS

	2010	2009
Return on equity (%)	(31%)	11%
Finished goods inventory turnover (days)	44	31
Trade receivables turnover (days)	64	48
Trade payables turnover (days)	86	65
Current ratio	1.1	1.2
Gearing ratio (%)	38.5%	2.6%

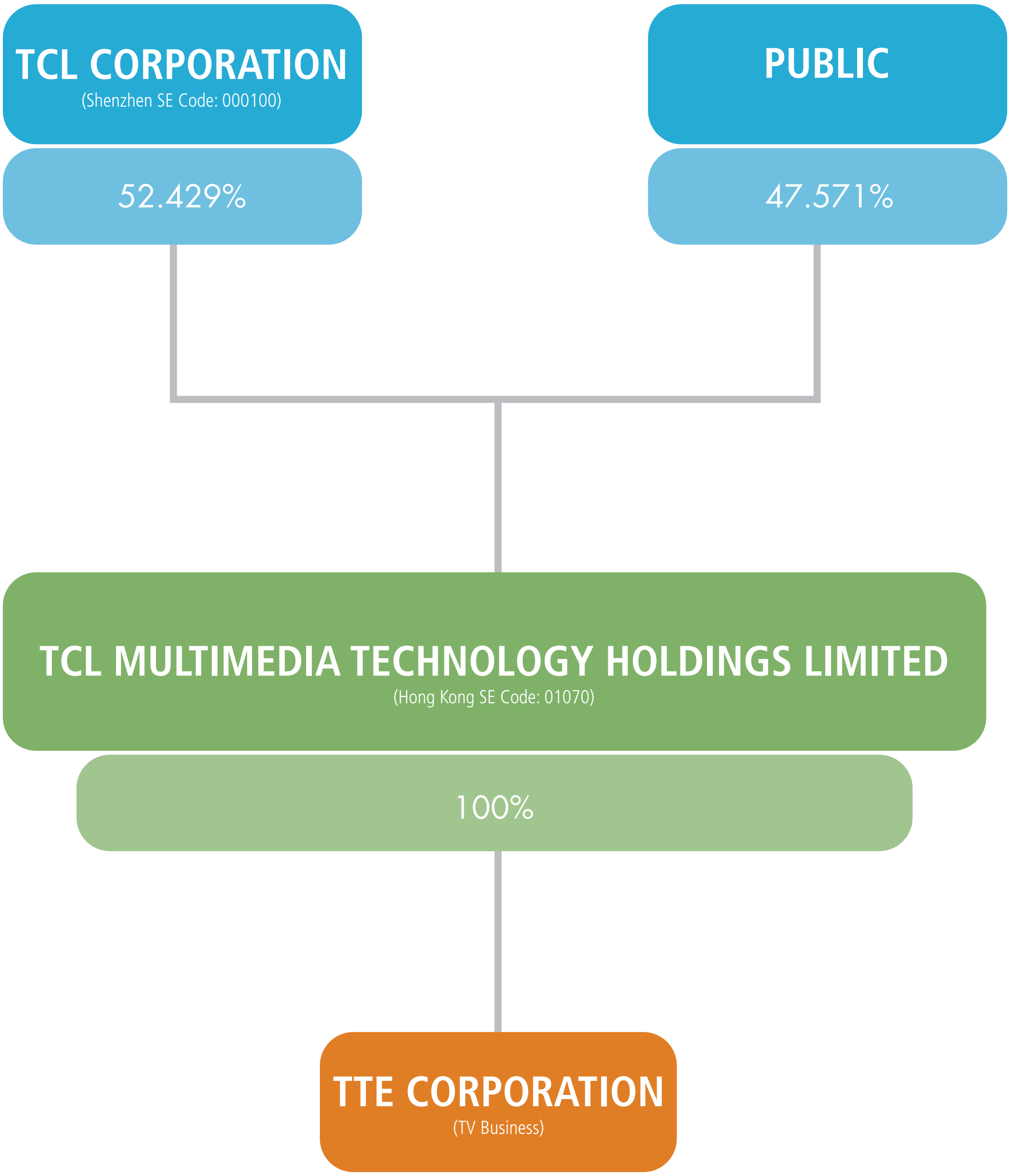
Note: The above turnover days are calculated on average balance of the year.



TURNOVER BREAKDOWN BY PRODUCTS

TURNOVER BREAKDOWN BY REGIONAL TV BUSINESS CENTRES

CORPORATE STRUCTURE



YEAR IN REVIEW 2010

MARCH

The Group held a press conference to introduce the first 3D Internet TV in the world.

APRIL

The Group successfully completed a share placement and subscription, raising net proceeds of approximately HK$523 million.

JULY

The Group announced that it had entered into agreements for transferring its land use rights in the PRC to TCL Corporation.

SEPTEMBER

Mr. ZHAO Zhongyao has been appointed as an executive director and the chief executive officer of the Company and a member of the executive committee of the Board; Mr. YU Guanghui has tendered his resignation as the chief executive officer of the Company. His other posts in the Group remain the same (including being an executive director of the Company and a member of the executive committee of the Board).

According to a joint research study by R&F Global Ranking Information Group and Beijing Famous Brand Evaluation Co. Ltd., TCL maintained the No.1 TV brand position among the "Most Valuable Chinese Brands" in 2010 with a brand value of RMB45.8 billion.

DECEMBER

The main plant of 8.5 generation LCD panel production line of Shenzhen Huaxing Photoelectrics Technology Company, Limited, a joint venture between TCL Corporation (the Group's ultimate holding company) and the Shenzhen Municipal Government, was completed ahead of schedule.

In the 44th International Consumer Electronics Show, TCL ranked 25th among the "Top 50 Global Consumer Electronics Brands" and No.6 on the list of "Global TV Brands". At the same time, the brand was awarded "Top 10 Chinese Consumer Electronics Brands" and "Top 20 Global TV Brands" for the fifth consecutive years. It was also named "The World's Quality Flat TV of the Year" and the "Best Functional 3D TV Award of the Year".

The Group disposed of the entire equity interest of TCL Digital Technology (Shenzhen) Company Limited.

CHAIRMAN'S STATEMENT

On the strength of its extensive industry experience, management expertise and a thorough understanding of the key trends and issues in the industry, the Group rose up to the challenges with the resolute implementation of a host of strategic measures and restructuring initiatives to ensure the Group's competitive strengths in an open, decisive, prompt and responsible manner. The actions taken also have strengthened the Group's foundation for long-term development with an emphasis on "integration, innovation and internationalization".

Dear Shareholders,

2010 proved to be a challenging year for the TV industry due to a confluence of factors. These include intensifying competition in the market, sluggish consumer sentiments in Europe and the United States, as well as product structure adjustment in the PRC's TV industry. In the first half of the year, the Group did not take advantage of opportunities brought by the migration from CCFL (Cold Cathode Fluorescent Lamp) LCD TVs to LED backlight LCD TVs in the market. As a result, the Group was late in introducing LED backlight LCD TVs into its product mix, resulting in a decline in unit sales. At the same time, sales in the PRC Market were below target due to overly optimistic sales forecast, which led to high inventory levels in the first half of the year. The inventory clearance of obsolete CCFL LCD TV models had brought considerable pressures on product prices and gross margin, causing an operating loss of HK$591 million during the year. For the year ended 31 December 2010, the Group logged HK$26,949 million in turnover, representing a 11.2% decrease from the previous year. LCD TV sales volume dropped 10.9% year-on-year to 7.46 million sets.

Nonetheless, on the strength of its extensive industry experience, management expertise and a thorough understanding of the key trends and issues in the industry, the Group rose up to the challenges with the resolute

CHAIRMAN'S STATEMENT

implementation of a host of strategic measures and restructuring initiatives to ensure the Group's competitive strengths in an open, decisive, prompt and responsible manner. The actions taken also have strengthened the Group's foundation for long-term development with an emphasis on "integration, innovation and internationalization". The Group is determined to boost its competitiveness and profitability by enhancing its product mix, consolidating its leading position in the PRC market, capitalising on the PRC government's stimulus policies to achieve sales growth, and speeding up business expansion in the Emerging Markets. As a result of these measures, the Group's operational and financial performance gradually improved in the fourth quarter of 2010. It recorded an operating profit of HK$143 million, which narrowed the operating loss for the year. By the end of the third quarter, the Group had largely completed the inventory clearance of obsolete LCD TV models in the PRC Market, and the strategy of boosting sales of LED backlight LCD TVs had been implemented effectively. As a result, the sales volume of LED backlight LCD TVs as a percentage of the total sales volume of LCD TVs continued to grow, from 1.5% in the first half of 2010 to 27.6% in December 2010. The sales volume of LCD TVs in the PRC Market rose 10.7% year-on-year.

A leader with strengths in brand and innovation

For the past three decades, TCL has been recognised by its renowned brand name and quality products, and has adhered to advanced corporate management practices to enhance its manufacturing capability through innovations and research and development. As one of the PRC's most well-known multinational enterprises, the Group exercises stringent control over its supply chain and strives to further consolidate its reputation as the PRC's leading TV and consumer electronic brand on the international stage.

According to a joint report released by R&F Global Ranking Information Group Ltd. and Beijing Famous Brand Evaluation Co. Ltd. in September 2010, TCL maintained the No.1 TV brand position among the "Most Valuable Chinese Brands" with a brand value of RMB45.8 billion. The Group was ranked No.2 in terms of market share in the PRC, and No.3 with a 13.6% share of the LCD TV market in the PRC, according to a survey by DisplaySearch in 2010.

In the 44th International Consumer Electronics Show, TCL's pioneering Digital Internet 3D TV (創新產品智能互聯網3D電視機) won "The World's Quality Flat TV Award" and the "Best Functional 3D TV Award". TCL's Digital Internet 3D TV P6100 Series also won the "China Flat TV Premium TV Standard Award". These accolades are testaments to the top quality of TCL's products and its innovation ability. In addition, TCL was ranked 25th in the "Top 50 Global Consumer Electronics Brands" and No.6 on the list of "Global TV Brands". For the fifth consecutive year, TCL was named a "Top 10 Chinese Consumer Electronics Brands" and "Top 20 Global TV Brands".

As a strategic partner of the Guangzhou Asian Games 2010, TCL not only provided necessary audio-visual equipment to help make the Games run smoothly, it also filmed some of the games in 3D, such as the 110-metre hurdle event featuring the PRC's LIU Xiang. TCL's involvement has set a new trend of filming major international sports events in 3D, further enhancing TCL's reputation as a display of technical prowess in the consumer electronics industry.

Leadership in global TV industry bolstered by vertical integration

Huizhou Bri-King Optronics Company, Limited ("Huizhou Bri-King Optronics"), the Group's joint venture with Taiwan's AU Optronics Corporation ("AU Optronics"), has commenced mass production of LED backlight modules since August 2010. Together with the backlight modules production line of Shenzhen TCL Optoelectronics Technology Co., Ltd. ("TCL Optoelectronics"), a subsidiary of TCL Corporation ("TCL Corporation"), it has further strengthened the Group's LCD backlight TV lines sales and production. Through its committed efforts to innovation and achieving the highest technical standards, the Group was able to successfully launch three brand new Internet TV series, including 3D Digital Internet TV P6100 series, Dark Crystal Internet TV V6200 series, and Super-Slim LED Internet TV E5200 series. Market reception for the new product lines has been very positive. The Group continued to maintain its leading position in the PRC Internet TV market, with a market share of 23.5%, according to a survey of China Market Monitor in 2010.

CHAIRMAN'S STATEMENT

Meanwhile, the construction of the main plant for the production of 8.5 generation LCD panel at Shenzhen Huaxing Photoelectrics Technology Company, Limited ("Huaxing Photoelectrics"), a joint venture between TCL Corporation (the Group's ultimate holding company) and the Shenzhen Municipal Government, has been completed. The plant is the only LCD panel project independently developed in the PRC. It is the most advanced manufacturing facility for the production of 8.5 generation LCD panels outside of Japan and South Korea, and will commence production in the fourth quarter of 2011. Upon completion, the plant will be able to produce 26-inch to 32-inch, 46-inch and 55-inch LCD TV screens. The plant represents TCL's resolve to move up the value chain to the manufacturing of core components, and fully demonstrates its commitment to becoming not only a TV manufacturer but also a leading player in the global TV industry. The plant also provides added impetus for the Group's drive to integrate the LCD TV industry chain in the future, and marks a significant step by the Group to boost its core competencies and to revolutionalise the industry.

Unfaltering determination to push ahead in international markets

Over the years, the Group has remained steadfast in expanding its international presence, and gradually fortifying its competitiveness through internationalization. Despite the many challenges along the way, TCL never faltered its steps to implement an internationalization strategy to become a respected global enterprise.

Emerging Markets in overseas have been an integral part of the Group's development strategy. During the year, the Group took proactive measures to build up its customer base and open up new markets. In addition to its marketing and promotion efforts, the Group achieved a significant growth of 194.2% year-on-year in LCD TV sales in Emerging Markets in 2010, bringing substantial revenue contribution to the Group. Although the European

Market has been hit by the sovereign debt crisis, the Group remained focused on keeping pace with market trends with the launch of new LED backlight LCD TVs. It also focused on developing specific markets and clientele, enhancing supply chain, making its products more competitive and strengthening the TCL brand. These have resulted in a year-on-year increase of 27.5% in sales volume of LCD TVs in Europe. Meanwhile, the Group completed the restructuring of its operation and started an online sales channel for TCL's long-term development objectives in the North American Market. During the year, the Group also adjusted its Strategic OEM customer base and started strategic partnerships with international brands such as Toshiba.

Steady capital management

During the year, the Group successfully completed a share placement and subscription, raising net proceeds of approximately HK$523 million. The initiative has boosted the Group's financial strength and further enhanced growth of the Group's LED backlight LCD TV business. As at 31 December 2010, the Group had HK$2,133 million in cash and bank deposits. Its sound financial management and strong cash flow has laid a solid foundation for the sustainable growth of its business.

Outlook

The year 2011 marks the 30th anniversary of the founding of TCL, as well as the beginning of a new era. With stable growth prospects in the PRC's economy and the PRC government's continuous efforts to boost domestic consumption, the Group is confident of achieving healthy business growth going forward. Nonetheless, the road to recovery of the global economy remains long and winding, and the TV industry is inevitably affected by uncertain external factors. Thus, the Group will actively yet prudently promote healthy development of its business by continuously upgrading its product mix to boost LED backlight LCD sales, capitalising on the growth opportunities presented by of the PRC's government's favourable policies, including the "Household Appliances Subsidy Scheme", the "Home Appliances Replacement Scheme", "Promotion of Energy Efficient Appliances Scheme", and the launch of new energy efficiency

CHAIRMAN'S STATEMENT

standards, as well as optimizing its channels in towns and rural villages to broaden its market share in the PRC, which will deliver sales and profit growth to the Group. The Group expects that its business in the PRC Market will remain an important profit growth driver.

The Group will devote efforts to its industry chain integration. It will utilise resources, such as the LCD TV Integration Plant, LED Backlight Modules production line of Huizhou Bri-King Optronics, and the 8.5 generation LCD panel project of Huaxing Photoelectrics, to extend the industry chain to the realm of key components, further consolidating its position as a leading enterprise in the global TV industry.

The PRC government plans to complete the integration of the telecommunication network, the TV broadcast network and the Internet by 2015. This will bring business opportunities to the Group and lead the TV industry into a network-dominated era in the future. To position itself for these opportunities, the Group will continue to foster development in the area of Digital Internet TV (智能互聯網電視機), achieve breakthroughs in the area of research and development and core technology, and expand the scope of independent innovation.

To effectively enhance the structure of its overseas business and enable it to take decisive action in response to market changes, the Group has set up an Overseas Business Centre, as a platform to implement strategic management and consolidate its operations on planning, product, sales, logistic, finance and information technology. It also adopts rigorous risk management and control, and effective business performance management of various overseas markets, to ensure effective allocation of resources and synergies. The Group will continue to build on its core strengths and enhance the competitiveness of its products. It will strive to capture opportunities, rise up to challenges, and push ahead with the long-term development strategy for the overseas business with confidence to help turn TCL into a truly global brand and to generate greater value for shareholders in the long term.

On behalf of the Board, I would like to thank our shareholders, customers and business partners for their great support. I would also like to take this opportunity to express our gratitude to our management team and staff for their hard work and contributions. I hope all our staff will continue to push forward our business strategy of "integration, innovation and internationalization", and work towards the goal of making TCL a venerable, highly innovative and world-leading company, and contribute to sustainable long-term growth of the Group.

LI Dongsheng
Chairman

Hong Kong, 25 February 2011

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2010 was a year fraught with challenges for the Group. Intense market competition, restructuring of the Group's business in North America, and adjustment to the customer base of its strategic OEM business have contributed to a decline in its total TV sales volume. At the same time, the sales in the PRC Market were below target due to the overly optimistic forecast of the PRC's TV industry, resulting in a high inventory level at the beginning of the year. In addition, during the first half of the year, the Group failed to seize the opportunity brought by the market transition from CCFL LCD TVs to LED backlight LCD TVs. Therefore, it lowered the selling prices of obsolete TV models to clear the inventory and increased the proportion of LED backlight LCD TV products, which caused tremendous pressure on gross margin and operating loss in 2010. For the year ended 31 December 2010, the Group recorded HK$26,949 million in turnover, down by 11.2% year-on-year. Gross profit decreased by 23.5% year-on-year to HK$3,765 million. For the whole year, the Group recorded HK$591 million in operating loss and HK$983 million in loss attributable to owners of the parent company. Basic loss per share amounted to HK92.05 cents (2009: basic earnings per share of HK39.15 cents).

Nonetheless, the Group adopted a proactive and pragmatic approach to respond to the challenges. In September, it appointed a new chief executive officer and decisively implemented a number of strategic measures to boost operational efficiency. By the end of the third quarter, the Group had substantially completed the inventory clearance of obsolete TV models, paving the way for adjustment to its product mix and strategy. Moreover, the Group's joint venture with Taiwan's AU Optronics commenced mass production of LED backlight modules in August 2010. As a result of its successful product transition and implementation of customer-focused and market-oriented marketing strategy, the sales volume of LED backlight LCD TVs rose from 1.5% of total LCD TV sales in the first half of 2010 to 27.6% in December, the PRC Market performed exceptionally well. With the prompt adjustment to the Group's business strategy, its operational and financial performance in the forth quarter improved gradually and therefore the operating loss for the whole year was reduced.

MANAGEMENT DISCUSSION AND ANALYSIS

As Internet TVs will be the future trend for the TV industry, the Group successfully launched the world's first 3D Internet TV during the period under review, further consolidating its leading position in the PRC Internet TV market. Meanwhile, the main plant of 8.5 generation LCD panel production line of Huaxing Photoelectrics, a joint venture between TCL Corporation (the Group's ultimate holding company) and the Shenzhen Municipal Government, was completed ahead of schedule. Together with the backlight modules production line of TCL Optoelectronics, a subsidiary of TCL Corporation, it marks a major step forward in the Group's effort to achieve integration of its upstream and downstream industry value chain as well as transformation and upgrade of the industry, which helps achieve synergy, enhances the Group's competitiveness, and lays a solid foundation for its healthy and sustainable development.

TV Sales

During the period under review, the total sales volume of the Group's LCD TVs decreased by 10.9% compared with last year to 7.46 million sets. This accounted for 57.4% of the total TV sales volume in 2010, a 1.4% drop from 58.8% in 2009. The decline was mainly due to the Group's failure to seize the opportunity brought by the market transition from CCFL LCD TVs to LED backlight LCD TVs in the first half of the year, the restructuring of its North American Markets and adjustment to its strategic OEM customer base. Nevertheless, the Group's sales of LCD TVs rebounded in the fourth quarter, reflecting the success of aggressive implementation of product mix strategy. Coupled with the advantages of the PRC government's economic stimulus policies, such as the "Household Appliances Subsidy Scheme" and the "Home Appliances Replacement Scheme", the LCD TV sales volume in the PRC Market rose by 10.7% year-on-year.

Meanwhile, the Group has stepped up efforts to promote its LED backlight LCD TV products. This resulted in a dramatic increase in the sales volume of LED backlight LCD TVs in proportion to the total sales volume of LCD TV products for the second half of the year. In December, approximately 270,000 sets of LED backlight LCD TVs were sold, accounting for 27.6% of the total sales volume of LCD TVs. The Group has also made relentless

efforts to improve product quality, strengthen its research and development, and optimize its product mix to fulfil customers' needs. During the year, 66 new TV models were launched, including three 3D TV series, eight LED backlight LCD TV series, the innovative CCFL V10 model, and the Super-slim LCD TV P60 and P50 series.

The Group is continuously striving for innovation to lift its brand equity and fortify its leading position in the PRC and international markets. In the 44th International Consumer Electronics Show, TCL ranked 25th among the "Top 50 Global Consumer Electronics Brands" and No.6 on the list of "Global TV Brands". At the same time, the brand was awarded "Top 10 Chinese Consumer Electronics Brands" and "Top 20 Global TV Brands" for the fifth consecutive years. It was also named "The World's Quality Flat TV of the Year" and the "Best Functional 3D TV Award of the Year". All these awards demonstrated TCL's strength in the consumer electronics industry. The Group's market share ranked No. 2 in the PRC TV market. Its LCD TV market share in the PRC market was 13.6% and was ranked No. 3 in the PRC market (DisplaySearch, 2010).

Sales volumes by region are indicated below:

	2010 *('000 sets)*	2009 *('000 sets)*	**Change**
LCD TVs	**7,464**	8,373	(10.9%)
Of which:			
LED backlight LCD TVs	**843**	–	N/A
– PRC	**5,124**	4,629	+10.7%
– Overseas	**2,340**	3,744	(37.5%)
CRT TVs	**5,548**	5,865	(5.4%)
– PRC	**1,947**	2,968	(34.4%)
– Overseas	**3,601**	2,897	+24.3%
Total TV Sales Volume	**13,012**	14,238	(8.6%)
Total AV Products Sales Volume	**15,893**	21,291	(25.4%)

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Market

In response to the inventory issue, the Group started clearance of its inventory of obsolete TV models in the second quarter and substantially completed the inventory clearance in the third quarter. The Group also proactively adjusted its product mix and strategy in view of the market transition to LED backlight LCD TVs and stepped up efforts to promote its LED backlight LCD TVs, which resulted in a gradual improvement in the sales volume of its LED backlight LCD TVs in the PRC Market in the second half of the year, the sales volume accounted for 26.5% of the total LCD TV sales volume of products in December. In the fourth quarter, the gross profit margin for LCD TVs in the PRC Market was also improved. In addition, during the period under review, the Group grasped the opportunity brought by the TV transition in the PRC Market and it benefited from stimulus policies such as the “Household Appliances Subsidy Scheme”, the “Home Appliances Replacement Scheme” and “Promotion of Energy Efficient Appliances Scheme”. As a result, the Group managed to record sales growth in the PRC Market in 2010 in spite of intensifying market competition. The total sales volume of LCD TVs for the year rose by 10.7% year-on-year to 5.12 million sets, accounting for 68.6% of the total sales volume of the Group’s LCD TVs in 2010, up from 55.3% in 2009.

The Group launched three brand new Internet TV series in the fourth quarter, namely 3D Digital Internet TV P6100 series, Dark Crystal Internet TV V6200 series, and Super-slim LED Internet TV E5200 series. Market response has been very positive. With a market share of 23.5% (China Market Monitor 2010), the Group continued to maintain its leading position in the Internet TV market. The Group believes the proportion of its Internet TV sales to the total LCD TV sales volume will continue to rise and make an encouraging revenue contribution to the Group.

Overseas Markets

Emerging Markets

Emerging Markets have become a key growth driver and revenue source for the Group’s overseas business, the LCD TV sales volume of the year 2010 rose sharply by 194.2% year-on-year with record-breaking sales growth in Asian Markets, African Markets and Latin American Markets. With strong demand for LCD TVs in the Emerging Markets and the rapid transition from LCD TVs to LED backlight LCD TVs in certain markets, the Group saw notable increase in its LED backlight LCD TV sales. During the period under review, the Group also successfully developed customer bases in India, Brazil and Australia. In addition, the success of its marketing and promotional strategies targeting major international sport events, including the "Asian Games" and the "World Cup", has not only boosted sales, but also strengthened its brand reputation.

European Markets

During the period under review, the Group actively promoted TCL-branded TV products and introduced its LED backlight LCD TV products to keep pace with the market trend by focusing on expansion strategies for key markets and customers. This led to a significant increase in its market share in France, Spain and Switzerland and the sales of TCL-branded products. Therefore, the LCD TV sales volume for the whole year in Europe rose by 27.5%. Meanwhile, the Group's aggressive inventory clearance for obsolete TV models had been substantially completed while the inventory was maintained at a healthy level. In addition, in light of the foreign exchange volatility in the Euro zone during the period, the Group adopted measures to hedge against the Euro dollars to reduce the impact of currency exchange risks to the Group. The Group continued to implement cost control measures and adopt stringent risk control management to sustain business growth in European Markets.

North American Markets

The Group ceased the sale of RCA-branded TVs in line with its brand strategy alignment in the second quarter. TV sales volume in the North American Markets, therefore, remained at relatively low level. In addition, the Group has focused on restructuring of its operation and has adopted stringent cost control measures in order to reduce costs, laying a robust foundation for long-term development of TCL-branded TV products.

Strategic OEM

During the period under review, the Group collaborated with a variety of international brands and adjusted its client structure, with a view to diversifying its strategic OEM business customer base. The Group has started collaborating with Toshiba by setting up a joint venture in the PRC to sell Toshiba-branded TV products. Meanwhile, the Group has successfully developed a new online sales channel in partnership with Amazon, the largest Internet-based retailer in the United States.

MANAGEMENT DISCUSSION AND ANALYSIS

AV Products

The Group launched 30 new product series in 2010, including DVD, BD, AV and portable products. The sales volume of AV products in 2010 was down by 25.4% year-on-year to approximately 15.89 million sets. The decline was attributable to the shrinking of the traditional DVD player market. During the period under review, the Group took the initiative to enhance product design and improve production efficiency. It also forged strategic alliances with suppliers to work together towards reducing the impact of rising costs while cooperating on new product and customer base development. Thus, the impact on its gross profit margin was minimal.

R&D

In the face of an ever-changing market, the Group strives to engage in R&D to upgrade its product design, functionality and technology in order to offer innovative products that meet the needs of consumers. During the period, the Group launched the polarized, shutter and naked-eye 3D TVs and applied for about 20 patents for its cutting-edge 3D technologies, of which the proprietary intellectual property rights technology for switching 2D & 3D mode has enhanced its competitiveness in 3D products. Additionally, the Group has increased its R&D efforts in LED backlight LCD TV products by launching a wide range of such products in a timely manner to complement further its product portfolio. As a result, the market share of the Group's LED backlight LCD TV products increased significantly. At the same time, the Group has launched the pioneering Super-slim CCFL LCD TV, which was well received by the market but was still inadequate to meet with the growing demand.

Outlook

Going forward, the global TV industry still faces tremendous challenges. The Group will proactively take advantages of the gradual recovery of the world economy and the opportunities brought by the TV replacement cycle in the PRC Market and Emerging Markets. The Group will make full use of its internal and external resources in order to make faster response and enhance operational efficiency. By promoting industry value chain integration and adapting the strategy of migrating to high-end TV products through innovation and research and development, the Group will continue to increase the proportion of LED backlight LCD TVs in its product mix, while further invest in Internet TV and 3D TV businesses to consolidate its leading position in the PRC Market. Additionally, the Group will focus on expanding its overseas businesses in Emerging Markets, make continuous efforts to enhance the brand equity of TCL-branded products, and strive to become a leading TV and consumer electronics brand in the world.

The PRC Market remains the Group's main growth driver. The Group will continue to benefit from market opportunities arising from the PRC government's stimulus policies, such as the "Household Appliances Subsidy Scheme" and the "Home Appliances Replacement Scheme". It will leverage on further promotion of its LED backlight LCD TV business to expand its product portfolio with the aim of enhancing sales and profitability. The Group will also strive to make greater headways to the markets of third- and fourth-tier cities as well as towns and villages. It will further expand its sales network in rural villages and create market-oriented sales channels, so as to capture the growing demand brought by the product migration to high-end TV products in the PRC Market.

While fortifying its business foundation in the PRC Market, the Group will also strive to enhance its overseas business by consolidating supply chains as well as reinforcing localized production and procurement in order to optimize the cost structure for the sake of steady and sustainable growth in business development.

MANAGEMENT DISCUSSION AND ANALYSIS

Emerging Markets including Asian Markets, African Markets and Latin American Markets are set to become major contributors to the revenue and growth for the Group's overseas markets. The Group will take full advantage of the opportunities brought by the product migration in these markets and devote more resources to increase its LCD TV market share. In Europe, the Group will continue to move ahead with its prudent business development plans and create a more diversified product portfolio on top of an enhanced business model. In North America, the Group will seek to raise the profile of the TCL brand in line with its brand strategy adjustment. At the same time, it will focus on exploring business opportunities through partnership with established international brands to diversify the customer bases of its strategic OEM business.

In terms of AV products, the Group will expand its BD business and AV business and launch mid-to-high end products to enhance its leading position in the market.

The Group's joint venture with AU Optronics has commenced mass production of LED backlight modules while Huaxing Photoelectrics, a joint venture between TCL Corporation (the Group's ultimate holding company) and the Shenzhen Municipal Government will begin production of the 8.5 generation LCD panels, together with the backlight modules production line of TCL Optoelectronics which will be beneficial to the smooth management of inventories and cost control, as well as further extend its industry value chain to the realm of core components. This vertical integration of the upstream and downstream of the industry value chain will significantly enhance the Group's competitive edge in the industry. The Group will remain vigilant about changes in the market, and will work on comprehensive improvement for its marketing strategies, sales channels, product offerings and cost control. The Group will strive to make faster response and enhance operational efficiency for its core competitiveness and create greater value for shareholders in the long term.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

Please refer to note 28 to the financial statements.

Liquidity and Financial Resources

The Group's principal financial instruments comprise of bank loans, factorings, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balances as at the year end amounted to HK$2,132,619,000, of which 4.8% was maintained in Hong Kong dollars, 47.4% in US dollars, 40.9% in Renminbi, 2.6% in Euro and 4.3% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2009 and there was no asset held under finance lease as at year end.

As at the year end, the Group's gearing ratio was 38.5% which is calculated based on the Group's net borrowing of approximately HK$1,211,772,000 (calculated as total interest-bearing borrowings less pledged deposits and cash and bank balances) and the equity attributable to owners of the parent of approximately HK$3,144,446,000. The maturity profile of the borrowings ranged from one to four years.

Pledge of Assets

Please refer to notes 25 and 31 to the financial statements.

Capital Commitments and Contingent Liabilities

At the end of the reporting period, the Group had the following capital commitments:

	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for	**119**	89,172
Authorised, but not contracted for	**4,800**	275,631
	4,919	364,803

Pending Litigations

(a) In December 2007, a claim (the "Labour Claim") was made by a group of former employees of TTE Europe SAS ("TTE Europe", a subsidiary of the Group which had been deconsolidated in 2007) against the Company, TTE Europe and TCL Belgium S.A., an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 for a total compensation of approximately Euro 27 million (equivalent to approximately HK$279.6 million). The Industrial Tribunal of Boulogne-Billancourt of France has heard the case and the judgment will be released on 4 May 2011.

(b) On 8 November 2010, the official liquidator of TTE Europe (the "Receiver") issued a writ (the "First Writ") in the Commercial Court of Nanterre against TCL Corporation, the Company and certain other subsidiaries of the Company in respect of an alleged misappropriation or transfer of customers of TTE Europe and the alleged TTE Europe's unjustified assumption of the cost of the employment preservation plan, claiming a total of Euro 38.4 million (equivalent to approximately HK$397.6 million) and relevant interest and costs.

(c) On 8 November 2010, the Receiver issued another writ (the "Second Writ") in the Commercial Court of Nanterre against TTE Corporation, a wholly-owned subsidiary of the Company, in respect of an alleged inappropriate transfer of shares in TTE Technology Inc. by TTE Europe to TTE Corporation, claiming the payment of Euro 34 million (equivalent to approximately HK$352.1 million) and relevant interest and costs. The case is now in adjournment and the court will hear the case on 31 March 2011.

(b) and (c) above are collectively referred to as the Alleged Claims.

On 10 March 2011, the Commercial Court of Nanterre ruled against the Company and the co-defendants in relation to the First Writ, causing the Company to be jointly and severally liable to the compensation together with legal costs of approximately Euro 23.1 million (equivalent to approximately HK$249.8 million).

As at 21 March 2011, the latest practicable date prior to the printing of this annual report for the purpose of ascertaining information in respect of the Alleged Claims for inclusion in this annual report, the Company and the co-defendants are still in the process of negotiating with the Receiver for settlement in respect of the Labour Claim, the First Writ and the Second Writ.

It is the general policy of the Group to make appropriate provision based upon the merit and likely outcome of each individual case as it develops.

Foreign Exchange Exposure

Due to its international presence and operations, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

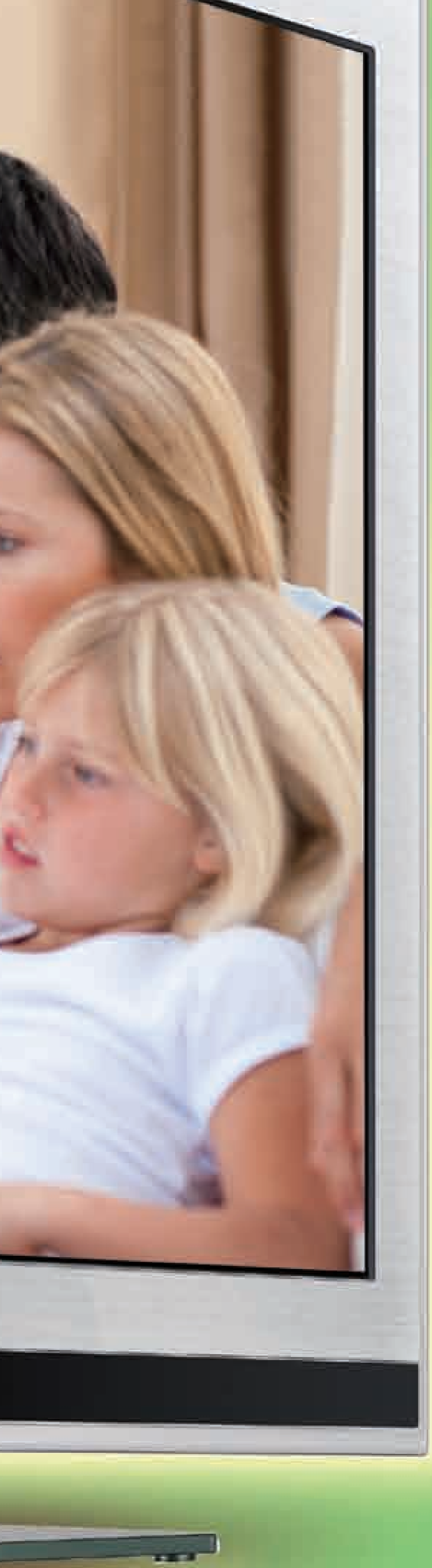
It is the Group's policy to centralise foreign currency management to monitor the Group's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasises the importance of trading, investing and borrowing in functional currency to achieve natural hedging. 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.

Employee and Remuneration Policy

The Group had a total of 27,033 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the performance of individual and the Company. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 25,364,352 shares remained outstanding at the end of reporting period.

A restricted share award scheme (the "Award Scheme") was also adopted by the Company on 6 February 2008 pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Award Scheme.

DIRECTORS & SENIOR MANAGEMENT



EXECUTIVE DIRECTORS

Mr. LI Dongsheng

aged 53, is the founder and Chairman of the Company. Mr. LI is also the Chairman of the Board and Chief Executive Officer ("CEO") of TCL Corporation. Mr. LI is one of the most influential business leaders in China. Under his leadership, TCL has become a pioneer for the internationalization among Chinese enterprises in the global consumer electronics industry. In 2004, TCL acquired Thomson's TV business and Alcatel's mobile phone business, laying its foundation for the leadership in global consumer electronics industry.

In 1982, Mr. LI joined TCL after graduating from Hua Nan Polytechnic University with a Bachelor's degree in Science. In 1985, Mr. LI was appointed as General Manager of TCL Communication Equipment Co. Ltd, and Director of Business Development of Guangdong Huizhou Industrial Development Company. Mr. LI was then appointed as Deputy General Manager of Huizhou Electronic Communication Co. in 1990. In 1993, Mr. LI served as General Manager of TCL Electronics Group Co. Mr. LI became Chairman and CEO of TCL Corporation in 1996.

In 2009, Mr. LI was awarded "The 2009 Economic Person of the Year: Business Leaders of the Decade" by CCTV; he was named CCTV's "China Economic Person of the Year" in 2002 and 2004; "Asia Businessman of the Year" by Fortune Magazine in 2004 and one of the Top 25 Global Business Leaders by Time Magazine and CNN. Mr. LI received a medal of OFFICER DE LA LEGION D'HONNEUR (French National Honor) in 2004. He was awarded a medal for China's "National May First Labor" in 2000.

Mr. LI was elected as a delegate to CCP's 16th Party Congress, and the 10th and 11th National People's Congress. Mr. LI holds a number of prestigious positions including: Chairman of China Electronic Imaging Industry Association; Vice Chairman of China Chamber of International Commerce; Chairman of Guangdong Household Electrical Appliances Chamber of Commerce.

DIRECTORS & SENIOR MANAGEMENT

Mr. BO Lianming

aged 48, is an Executive Director of the Company. He is also an Executive Director and Chief Operating Officer ("COO") of TCL Corporation, and a Non-executive Director of TCL Communication Technology Holdings Limited ("TCL Communication"), a subsidiary of TCL Corporation. Mr. BO held a number of management positions including Vice President and Financial Director of TCL IT Industrial Group, Vice President of TCL Components Strategic Business Unit, Executive Vice President of TTE Corporation, as well as Human Resources Director, Vice President and Senior Vice President of TCL Corporation. He has over 10 years of experience in the consumer electronics products industry. Before joining TCL Corporation in 2000, he was the Chief Accountant of Shenzhen Airlines Co., Ltd.. Mr. BO holds a Doctorate Degree in Business Administration from Xi'an Jiaotong University.

Mr. ZHAO Zhongyao

aged 48, is currently the CEO and an Executive Director of the Company, also an Executive Director and Senior Vice President of TCL Corporation. He currently holds the position of the Chairman of the Board of Directors of Huizhou Techne Corporation and the Chief Executive Officer of Huizhou TCL Home Appliance Group Co. Ltd.

Mr. ZHAO has almost 20 years of experience in sales and marketing and management of consumer electronics business. He graduated with a Master's degree in Engineering from Northwestern Polytechnic University of PRC and was a post-graduate in Avionics Engineering in the same university. He also obtained a Master's degree in the Business Administration from Massachusetts Institute of Technology in 2007.

Mr. YU Guanghui

aged 42, is currently the COO and an Executive Director of the Company, and Vice President of TCL Corporation. Mr. YU joined TCL in 1993. He had held the positions of Engineer of TCL Huizhou Shouhua Science Park, Manager Assistant of LG Electronics (Huizhou), Deputy General Manager of TCL King Electrical Appliances (Huizhou) Co. Ltd, Deputy General Manager of TCL Electronics (HK) Co., Ltd., General Manager of TCL Overseas Holdings Co., Ltd., Vice President of Electronics Business Unit and Overseas Business Unit of the Company, President of TTE Strategic-OEM Business Unit, General Manager of AV Business Unit and President of the Company. Mr. YU has rich management experience in material procurement, manufacturing, product management, business development and cooperation with world class companies. He was one of the founders of TCL's early Color TV production base. Mr. YU graduated from the Shanxi Normal University with a Master's degree in Physics, and holds a MBA degree from Peking University and an EMBA degree from Cheung Kong Graduate School of Business.

Ms. XU Fang

aged 48, is an Executive Director and Chief Human Resources Officer of the Company, and Vice President and Human Resources Director of TCL Corporation. She has been appointed as a Non-executive Director of TCL Communication with effect from 15 July 2009. She joined TCL Institute of Training of TCL Corporation as the Dean in February 2004. She then became the Deputy Dean of TCL Institute of Leadership Development in February 2006 and the Dean in April 2007. Ms. XU has been the Human Resources Director and General Manager of the Human Resources Management Centre of TCL Corporation since September 2007. Ms. XU is also a part-time lecturer at Shenzhen Graduate School of Peking University, a distinguished professor at Shantou University and a distinguished research fellow at Sun Yat-Sen University. Ms. XU obtained the graduate certificate in English Linguistics from Nanjing Normal University, and a Master's degree in Business Administration from New York Institute of Technology.

DIRECTORS & SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Albert Thomas DA ROSA, Junior

aged 57, is a Non-executive Director of the Company. Mr. DA ROSA holds both Bachelor's and Master's Law Degrees from the University of Hong Kong. He qualified as a solicitor in Hong Kong in 1980. He currently is a practicing solicitor and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. Mr. DA ROSA is a fellow of the Chartered Institute of Arbitrators and the Hong Kong Institute of Directors, a member of the Hong Kong Securities Institute and the Society of Registered Financial Planners and an Accredited Mediator with certain institutions in the U.K. and Hong Kong.

He is an Independent Non-executive Director of HKC (Holdings) Limited, a Non-executive Director of eSun Holdings Limited, and the Company Secretary of Y.T. Realty Group Limited and Yugang International Limited, all of which are companies listed on the Hong Kong Stock Exchange.

Mr. DA ROSA serves as the Chairman of the Appeal Tribunal (Buildings) Panel, Deputy Convenor, a member of the Solicitors Disciplinary Tribunal Panel, and Deputy Chairman and member of the Panel of the Board of Review (Inland Revenue) respectively. He also served as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission from February 2003 to March 2009.

Mr. HUANG Xubin

aged 45, is a Non-executive Director of the Company. He is also the Chief Financial Officer ("CFO") of TCL Corporation. Mr. HUANG joined TCL in March 2001 and served as an Officer and General Manager of the Financial Settlement Centre of TCL Corporation. He became the Chief Economist of TCL Corporation in June 2004, Director and General Manager of TCL Finance Co. Ltd. in October 2006 and has been a member of the Executive Committee of TCL Corporation since July 2007. Before joining TCL, Mr. HUANG served as a Clerk of Investment Institute, Deputy General Manager of the Credit Card Division, Deputy Manager and Manager of Credit Division of China Construction Bank, Guangdong Branch. He was also the Deputy Manager and Manager of Fund Management Division and Securities Division of Guotai Securities Co. Ltd., Guangdong Branch and Senior Manager of Guangzhou Office of China Cinda Asset Management Corporation. Mr. HUANG graduated from Hunan College of Finance and Economics, and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, PRC and an EMBA degree from China Europe International Business School.

Mr. LEONG Yue Wing

aged 58, is a Non-executive Director and a Senior Consultant of the Company. Mr. LEONG was previously CEO of the Company and was responsible for the overall management of the Company including strategy, business development and operations. Prior to joining the Company, Mr. LEONG was associated with Royal Philips Electronics since 1978 and retired in April 2007 as Executive Vice President – Philips Consumer Electronics. Mr. LEONG has extensive management experience in the production and sales of audio-visual and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets. Mr. LEONG has a Bachelor's degree in Mechanical Engineering and a MBA from the University of Singapore (currently National University of Singapore).

DIRECTORS & SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Guliang

aged 48, is an Independent Non-executive Director of the Company. He is a professor at University of International Business and Economics, School of Business. Mr. TANG holds directorships in several listed companies in the PRC. He is also a certified public accountant in the PRC and a Director of the Accounting Society of China.

Mr. Robert Maarten WESTERHOF

aged 67, is an Independent Non-executive Director of the Company. He has over thirty years' experience in the electronics industry. Mr. WESTERHOF has held senior management positions in the Computer, Telecommunications and Medical Systems divisions of Philips, his last positions were CEO Philips Asia and CEO Philips North America. After his retirement from Philips he became the President of the European top soccer team PSV Eindhoven (a voluntary job). He is the Co-Chairman of Thinktank Omega, an independent think tank that advises the government of the Netherlands on economics, financial and social issues and a Non-executive Director of AND Technologies N.V., a global leading provider of navigation solutions and digital maps which listed on the Amsterdam Stock Exchange. He serves as the Chairman of the Supervisory Board of Nucletron, a worldwide medical treatment company based in the Netherlands. He is also a member of the Supervisory Board of Teleplan, a hardware services provider listed on the Frankfurt Stock Exchange, and a member of the Advisory Board of VKA, an IT strategy company based in the Netherlands. Mr. WESTERHOF holds a Master's degree in Business Administration at the Erasmus University of Rotterdam. He is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

Ms. WU Shihong

aged 54, is an Independent Non-executive Director of the Company. She has extensive experience in the information technology industry. Ms. WU is currently the Chairman of the Board and President of Shanghai Blackspace Information Tech. Co. Ltd. She joined IBM China in 1985 and was a General Manager, Channel Management of IBM China from May 1997 to February 1998. She then became a General Manager of Microsoft China Co. Ltd. until August 1999. From 1999 to 2002, Ms. WU was a Vice President of TCL Corporation, and General Manager of TCL Information Technology Industrial (Group) Co. Ltd., a wholly owned subsidiary of the Company. Since January 2002, she has been studying in the area of philanthropy. Ms. WU was elected by the "Fortune" magazine as one of the "Most Powerful Business Women in the World" in year 2001 (No. 27) and year 2002 (No. 24).

DIRECTORS & SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. YUAN Yi

aged 44, is currently the CFO of the Company. Mr. YUAN joined TCL in 1997, he had been Chief Cost Accountant of TCL King Electrical Appliances (Huizhou) Co. Ltd., Finance Manager of TCL King Electrical Appliance (Inner Mongolia) Co., Ltd., Finance Manager of TCL King Electrical Appliances (Huizhou) Co., Ltd., Assistant to General Manager of Finance Center of the Company, Assistant to Senior Vice President of Finance Management Center of TCL Corporation, and Deputy General Manager of Finance Management Center of TCL Corporation, etc. Mr. YUAN has extensive experience in financial management. He graduated from Hubei University.

Mr. HAO Yi

aged 37, is currently the Chief Sales Officer and General Manager of Overseas Business Center of the Company. Mr. HAO joined TCL in March 2004. He had held the positions of Assistant to Board Chairman of TCL Corporation, Vice President of the Company and General Manager of Emerging Market Business Center of the Company. He has rich experiences in international business. Mr. HAO graduated from York University, Toronto with a Bachelor's degree in Economics, and also holds a degree of EMBA from Cheung Kong Graduate School of Business

Mr. ZHANG Shanshui

aged 45, is currently the Executive Vice President and General Manager of Global Industrial Center of the Company. Mr. ZHANG joined TCL in 1996. He had held the positions of Assistant to Manager of TCL King Audiovisual Co., Ltd., Manager of PE Department, Director of R&D Institute, Deputy General Manager/General Manager of Industrial Center, General Manager of Sourcing Center of TCL King Electronic (Shenzhen) Co., General Manager of AV Business Unit of TCL Corporation, Deputy General Manager/General Manager of Industrial Center of Multimedia Business Unit of TCL Corporation, Executive Deputy General Manager of TTE Global Industrial Center, Vice President of TTE Strategic-OEM Profit Center, Vice President of Strategic-OEM Business Unit of TCL Corporation and General Manager of TV Business Center, Vice President of TTE Global Operation Center and Deputy General Manager/General Manager of China Industrial Center, General Manager of Total Quality Management, Deputy General Manager of TCL White Electronic Appliances Business Unit, Deputy General Manager of Global Industrial Center of the Company, Vice President of the Company etc. He has extensive experiences in Industrial Management. Mr. ZHANG graduated from National University of Defense Technology with a Bachelor degree in Automatism Testing Instrument.

Mr. CHEN Kuang-Lang, Wolf

aged 47, is currently the Chief Technology Officer ("CTO") of the Company. Mr. CHEN joined TCL Corporation in October 2010, and had held the position of Vice President of Industrial Research Institute of TCL Corporation. Since February 2011, Mr. CHEN has been re-designated as the CTO of the Company. Mr. CHEN is an expert in the field of video signal processing and flat-panel display technologies. From July 1992 to September 2010, he worked for Chunghwa Picture Tubes, Ltd and served as Senior Engineer of CRT R&D Division, Manager of Opto-electronics Department, Manager of Array Engineering Department in TFT Factory, Director of Opto-electronics Division, Head, Chief Engineer, and Deputy General Manager of Opto-electronics Vision Business Unit, the CTO and Senior Vice General Manger of R&D Center. Mr. CHEN graduated from Department of Electronics Engineering, Taiwan University of Science and Technology in 1992 with a Master's degree in Engineering. In 2009, he graduated from Department of International Business, College of Management of Taiwan University, with an EMBA degree.

Mr. SIN Man Lung

aged 37, is currently the Financial Controller of the Company. Mr. SIN joined the Company in 2005. He has more than 10 years auditing, finance and accounting experience in multi-national and listed companies. Mr. SIN is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the City University of Hong Kong with a Bachelor's degree in Accountancy.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman)

Mr. BO Lianming (appointed as executive director and vice chairman effective from 14 May 2010, appointed as member of the executive committee and ceased as vice chairman effective from 26 August 2010)

Mr. ZHAO Zhongyao (appointed as executive director, chief executive officer and member of the executive committee effective from 10 September 2010)

Mr. YU Guanghui (resigned as chief executive officer effective from 10 September 2010)

Ms. XU Fang

Mr. SHI Wanwen (resigned as executive director effective from 10 September 2010)

Non-Executive Directors

Mr. Albert Thomas DA ROSA, Junior

Mr. HUANG Xubin (re-designated as non-executive director effective from 22 March 2010)

Mr. LEONG Yue Wing (re-designated as non-executive director effective from 1 April 2010)

Independent Non-Executive Directors

Mr. TANG Guliang

Mr. Robert Maarten WESTERHOF

Ms. WU Shihong

COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISOR

Cheung, Tong & Rosa
Room 501, 5/F Sun Hung Kai Centre
30 Harbour Road
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

BRANCH REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL OFFICE

13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan, New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KYI-1104
Cayman Islands

INVESTOR AND MEDIA RELATIONS

Hill & Knowlton Asia Limited
36th Floor, PCCW Tower
Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the multimedia industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In April 2005, the Board adopted the code provisions (the "Code Provisions") of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Throughout the year ended 31 December 2010, the Group complied fully with the Code.

A. DIRECTORS

A1: The Board

The Board of Directors, led by the chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. As some of the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend.

During 2010, the Board held 4 regular meetings at about quarterly intervals and 19 additional meetings (14 of which were held regarding special matters which required the Board's decisions whereas the other 5 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2010 is as follows:

	Attendance		
	Regular Board Meetings	**Special Board Meetings concerning special matters requiring the Board's decisions**	**Special Board Meetings concerning operational matters only**
Executive Directors			
Mr. LI Dongsheng (Chairman)	2/4	7/14	5/5
Mr. BO Lianming (appointed on 14 May 2010)	2/2	9/11	N/A
Mr. ZHAO Zhongyao (appointed as executive director and became the CEO on 10 September 2010)	1/1	5/7	N/A
Mr. YU Guanghui (ceased to be the CEO from 10 September 2010)	4/4	7/14	5/5
Ms. XU Fang	3/4	13/14	N/A
Mr. SHI Wanwen (resigned on 10 September 2010)	1/3	2/7	N/A
Non-Executive Directors			
Mr. Albert Thomas DA ROSA, Junior	4/4	13/14	N/A
Mr. HUANG Xubin (ceased to be an executive director and was redesignated as a non-executive director, both from 22 March 2010)	3/4	9/14	N/A
Mr. LEONG Yue Wing (ceased to be an executive director and was redesignated as a non-executive director, both from 1 April 2010)	4/4	6/14	N/A
Independent Non-Executive Directors			
Mr. TANG Guliang	3/4	10/14	N/A
Mr. Robert Maarten WESTERHOF	4/4	13/14	N/A
Ms. WU Shihong	3/4	11/14	N/A

A2: Chairman and Chief Executive Officer

The position of Chairman is held by Mr. LI Dongsheng. The position of CEO was held by Mr. YU Guanghui until 9 September 2010 and has been thereafter taken up by Mr. ZHAO Zhongyao (i.e. since 10 September 2010). The segregation of duties and responsibilities between the Chairman and the CEO has been clearly established. A clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Group is ensured.

A3: Board Composition

The Board currently comprises 11 directors, including 5 executive directors, 3 non-executive directors ("NEDs") and 3 independent non-executive directors ("INEDs"). The composition of the Board has undergone the following changes since 31 December 2009:

1. Mr. HUANG Xubin ceased to be an executive director of the Company and has become a non-executive director, both from 22 March 2010;

2. Mr. LEONG Yue Wing ceased to be an executive director of the Company and has become a non-executive director, both from 1 April 2010;

3. Mr. BO Lianming has become an executive director from 14 May 2010;

4. Mr. SHI Wanwen resigned as an executive director on 10 September 2010; and

5. Mr. ZHAO Zhongyao has become an executive director from 10 September 2010.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors is related to each other.

The non-executive directors, half of whom are independent, play an important role on the Board. Accounting for about half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders of the Company and the Group as a whole.

Throughout the year of 2010, the Board at all times met the listing requirements of having at least 3 INEDs, and that at least one of them had appropriate professional qualifications in accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED on his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A4: Appointment, Re-election and Removal

Nomination of Directors

The Board has not established a Nomination Committee, and the selection and approval of new directors is undertaken by the Board. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to re-election by the shareholders of the Company at the first general meeting after the appointment.

In 2010, there were 3 Board meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of director(s), and the attendance record of the directors at these meetings is as follows:

	Attendance
Mr. LI Dongsheng (Chairman)	3/3
Mr. BO Lianming (appointed on 14 May 2010)	0/1
Mr. ZHAO Zhongyao (CEO) (appointed on 10 September 2010)	N/A
Mr. YU Guanghui	1/2
Ms. XU Fang	3/3
Mr. SHI Wanwen (resigned on 10 September 2010)	1/3
Mr. Albert Thomas DA ROSA, Junior	2/3
Mr. HUANG Xubin (redesignated on 22 March 2010)	1/3
Mr. LEONG Yue Wing (redesignated on 1 April 2010)	0/3
Mr. TANG Guliang	1/3
Mr. Robert Maarten WESTERHOF	2/3
Ms. WU Shihong	2/3

During the meetings, the Board considered the nomination and appointment of Mr. ZHAO Zhongyao and Mr. BO Lianming as executive directors whose term were effective from 10 September 2010 and 14 May 2010 respectively; the Board also considered the redesignation of Mr. HUANG Xubin and Mr. LEONG Yue Wing as NEDs, whose term were effective from 22 March 2010 and 1 April 2010 respectively.

The Board adopted a "Procedure and Criteria for Nomination of Directors" in 2005, the details of which are set out below:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Board meeting to discuss and vote on which candidate to be nominated or appointed to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors

   (a) Character and integrity

   (b) The willingness to assume broad fiduciary responsibility

   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company

   (e) Significant business or public experience relevant and beneficial to the Board and the Company

   (f) Breadth of knowledge about issues affecting the Company

   (g) Ability to objectively analyse complex business problems and exercise sound business judgment

   (h) Ability and willingness to contribute special competencies to Board activities

   (i) Fit with the Company's culture

2. Criteria Applicable to NEDs/INEDs

(a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings

(b) Accomplishments of the candidate in his/her field

(c) Outstanding professional and personal reputation

(d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

In the annual general meeting ("AGM") held on 10 May 2010, one-third of the directors (namely Mr. LI Dongsheng, Mr. HUANG Xubin, Mr. Robert Maarten WESTERHOF and Ms. WU Shihong) were subject to retirement by rotation and were re-elected. All the other NEDs (namely Mr. Albert Thomas DA ROSA, Junior, Mr. LEONG Yue Wing and Mr. TANG Guliang) were elected to hold office for a specific term until the next AGM to be held in 2011.

A5: Responsibilities of Directors

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group that throughout year 2010 they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2010 are set out in the section "Report of the Directors" of this Annual Report.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B1: The Level and Make-up of Remuneration and Disclosures

Remuneration of Directors

The Remuneration Committee was established in April 2005 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which are available at the Group's website http://www.tclhk.com.

The Remuneration Committee now consists of 3 members, the majority of whom are INEDs, namely Ms. WU Shihong, who is also the chairman of the Remuneration Committee, Mr. TANG Guliang and Ms. XU Fang.

CORPORATE GOVERNANCE REPORT

1 Remuneration Committee meeting was held on 29 October 2010 which all the members, Ms. WU Shihong, Mr. TANG Guliang and Ms. XU Fang attended. The work performed during the meeting include the following:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- determination of the remuneration packages of the directors, chief financial officer and certain senior management;
- discussion of the share option scheme of 2011-2012; and
- formulation of a new framework for determining the remuneration package in the coming year.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and caliber, the Group provides competitive remuneration packages to its executive directors and senior management. These comprise base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay and long-term incentive plan which includes share option scheme and restricted share award scheme. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives with pre-determined criteria and standards. Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company and shares of the Company purchased by trustee under the restricted share award scheme respectively. Please refer to the Company's announcement and circular dated 6 February 2008 and 20 March 2008 respectively for details of the restricted share award scheme. The remuneration payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and to give incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive directors' remuneration relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually; and

- share options or restricted shares which are awarded subject to the discretion of the Board.

The fees and any other reimbursement or remuneration payable to the Directors are set out in note 8 to the financial statements.

C. ACCOUNTABILITY AND AUDIT

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

C1: Financial Reporting

As at 31 December 2010, the Group had net assets of approximately HK$3,250 million, the Group also recorded a loss attributable to ordinary equity holders of the parent of approximately HK$983 million for the year ended 31 December 2010.

The financial statements set out on pages 68 to 171 were prepared on a going concern basis.

C2: Internal Controls

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal controls. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of the internal control system of the Group.

The Group has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

CORPORATE GOVERNANCE REPORT

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Group's business. The head of the Company's internal audit department reports to the Audit Committee.

C3: Audit Committee

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises 3 members, namely Mr. TANG Guliang, Mr. HUANG Xubin and Ms. WU Shihong. Mr. TANG Guliang is the chairman of the Audit Committee. He is a certified public accountant in the PRC and a professor at the University of International Business and Economics, School of Business. The Audit Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2010, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meetings attended/eligible to attend
Mr. HUANG Xubin	3/4
Mr. TANG Guliang	4/4
Ms. WU Shihong	3/4

The Audit Committee meetings are normally attended by the Company's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during 2010 included consideration of the following matters:

- the completeness and accuracy of the 2009 annual and 2010 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2010; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors.

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Audit services	HK$19,464,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$1,780,000

D. DELEGATION BY THE BOARD

D1: Management functions

The types of decisions which are to be taken up by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies.

D2: Board Committees

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

E. INVESTOR RELATIONS

The Group is committed to promoting investor relations and communications by maintaining regular dialogue with the institutional investors, fund managers, analysts and the media. The Group holds analyst and press conferences at least twice a year following the interim and annual results announcements, with its senior management present to answer questions regarding the performance of the Group. Meanwhile, as a channel to enhance corporate transparency, our website continues to disseminate shareholders information, such as interim and annual reports, statutory announcements and circulars electronically on a timely basis.

To further promote effective communication, the Group has actively conducted meetings, teleconferences, plant visits with the media and the investment community and has also participated in a number of well-attended investor conferences in Hong Kong, Shenzhen, Shanghai, Taiwan and Singapore.

Key Investor Relations Events in 2010:

Date		Events
January	•	Plant visit for investor, fund managers and analysts
	•	Lunch meeting with the media
February	•	Hong Kong investor conferences (organized by Morgan Stanley)
	•	Beijing investor conferences (organized by CICC)
March	•	2009 annual results announcement (press conference and analyst briefing)
	•	Hong Kong investor conferences (organized by Credit Suisse)
	•	Hong Kong investor conferences (organized by Nomura)
	•	Shenzhen investor conferences (organized by CICC)
	•	Singapore investor conferences (organized by Standard Chartered/Cazenove)
	•	New product launch ceremony – Press conference and dinner
	•	Hong Kong investor conferences (organized by JP Morgan)
April	•	Extraordinary General Meeting (General mandates to issue and repurchase shares, refreshment of the 10% share option scheme limit, election/re-election of directors and notice of annual general meeting)
	•	Plant visit for investors, fund managers and analysts
	•	2010 1st quarter results announcement (investor & media conference call)
May	•	2010 Annual General Meeting
	•	Singapore investor conferences (organized by CLSA)
June	•	Hong Kong investor conferences (organized by Standard Chartered)
	•	Plant visit for investors, fund managers and analysts
	•	Hong Kong investor conferences (organized by The Royal Bank of Scotland)
July	•	Shanghai investor conferences (organized by CICC)
	•	Taiwan investor conferences (organized by Yuanta)
	•	Hong Kong investor conferences (organized by BNP)
August	•	2010 interim results announcement (press conference and analyst briefing)
	•	Plant visit for investors, fund managers and analysts
September	•	Hong Kong investor conferences (organized by JP Morgan)
October	•	Plant visit for the media
	•	2010 3rd quarter results announcement (press conference and analyst briefing)
November	•	Hong Kong investor conferences (organized by JP Morgan)
December	•	Hong Kong investor conferences (organized by The Royal Bank of Scotland)

In addition, the Group believes that annual report is one of the most important channel for its communication with the investors and the public, its 2009 annual report won the Honors Award in the category of "Overall Annual Report : Electronics" in the 2010 International Annual Report Competition (ARC) Awards in recognition of our effort in the disclosure of information, design and production of annual report. The Group will keep on maintaining corporate transparency and disclosure of accurate information through different channels.

The International ARC Awards Competition, organized by MerComm, Inc in the United States, is now the largest international competition honoring outstanding achievement in annual reports of various companies around the world. It is granted the "Academy Awards of Annual Reports" by the financial media.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

HUMAN RESOURCES:

In the year of 2010, the Group implemented a variety of initiatives of human resources management on corporate strategy, business development, team building, organizational atmosphere enhancement, etc., which served as direct and effective support for bolstering its corporate strategy, enhancing its organizational performance, and facilitating its staff development.

1. Basic Information on Human Resources

As of 31 December 2010, there were total 27,033 employees worldwide and approximately 5.99% of them are employed outside of Mainland China, the distribution of which is set out as follows:

Mainland China	25,413
Rest of Asia (including Australia) outside of Mainland China	725
North America	271
Europe	624

As compared with the corresponding period last year, the Group's efficiency per capita and organizational efficiency were enhanced. At the same time, more emphasis was put on scientific and optimized deployment of human resources while more importance was attached to internationalized operation and needs for industrial competitiveness enhancement in talent cultivation.

2. Key Efforts on Human Resources

In the year of 2010, the competition situation in the global LCD TV market changed drastically and the competition in the PRC market intensified. To accommodate the corporate development strategy, the shift in business model and the adjustment in organizational structure, the Group adopted a series of human resources initiatives to enhance its organizational efficiency, attract, nurture and motivate its key talent as well as enhance its organizational atmosphere:

– Pursuant to the integration of LCD industry chain, the need of "Consumer Electronic-oriented marketing and IT-oriented operation" in business development and the principle of speed and efficiency, the Group has adjusted the mode of business operation, reorganized organizations for product, sales and overseas operation, made strategic deployment for strategic planning, human resources, administration and information management departments, with an aim to augment speed and efficiency, and to address customer needs and market changes promptly.

– A high performance-oriented incentive mechanism was established as the Group proposed to assess staff by results, continued to improve its performance management and aggrandized the linking ratio of staff performance to corporate performance, cultivating a high performance-oriented corporate culture through strict appraisal and adequate incentives.

- The Group pays attention to talent development and cultivation consistently. In the previous year, in order to accommodate the needs of talent development of the Group, further efforts were made in respect of talent evaluation standard, construction of career pathway and succession plan for professional personnel, etc., so as to intensify talent cultivation and create opportunities for talent growth.

- Specific channeling activities such as "Dialogue with the management" (對話高管) were promoted and specific improvement projects such as "I can help" and "I can do it" were further implemented to increase the staff's sense of responsibility as a master; the multi-channel staff communication mechanism was also established to improve staff's level of satisfaction as well as organizational atmosphere in addition to supporting business development.

- To match with the Group's work requirement of "transparency, simplification, standardization and computerization", the Group has endeavored to refine all policies and systems regarding human resources management, promoted the construction of standardized infrastructure such as E-HR (Electronic Human Resources) system and OA (Office Automation) system, etc., while standardizing business workflows to raise efficiency and quality of its personnel services.

3. Social Responsibility

In the previous year, the Group has always adhered to its principle of performing social responsibility, and contributed to the community with concrete action by actively taking part in campaigns such as public charity, educational support, the Asian Games, environment protection and construction.

- In April 2010, a 7.1 magnitude earthquake occurred in Yushu, Qinghai Province. The Group was the first to respond by appealing to all staff for donation and contributed a host of sports accessories to schools at Yushu. Meanwhile, as a official partner of the Chinese Men's National Basketball Team, the Group built a "Caring Sports Ground" (愛心運動場) in Yushu in collaboration with the team, so as to arouse inherent power of the people for rebuilding their homes, as well as to help psychological recovery in the disaster area.

- the Group is committed to "shouldering social responsibility and becoming an outstanding corporate citizen", and pays close attention to the educational undertakings. Mr. LI Dongsheng, chairman of the Group, together with his wife, have also contributed RMB8 million in 2007 to set up the "Hua Min Fund" (華萌基金) focusing on subsidising the educational undertakings in China's poverty-stricken rural areas.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

– At the 16th Guangzhou Asian Games held in 2010, TCL's products such as 3D internet TVs, large LED displays, security monitors were installed in 46 gymnasiums, the Asian Game City, the headquarter hotel and the office of Olympic Council of Asia, providing comprehensive display equipment and technical support for the game. TCL, as the sole sponsor in the consumer electronics sector, adopted "Happy Asian Games with a New Vision" (快樂亞運新視界) as the theme and activated the tour performances of "Happy Asian Games with a New Vision" (快樂亞運新視界) parade, a large-scale variety show for the "Asian Games in China", "TCL Multimedia Inter-active Art Exhibitions". It has also sponsored the "Road of Asia"(亞洲之路) and the Asian Games torch relay, and initiated "I am here in the 3D Asian Games" (3D亞運 我在現場) nation-wide tour exhibition and the 3D reality shows. The above-mentioned activities integrated new product exhibition, product selling, brand promotion and consumption experience as a whole, which not only helps boost sales growth in the market but also develops potential customer groups. Proven by facts, the proper functioning of all TCL products throughout the games has delivered to the public a perfect and colorful sports event, guaranteed fairness and justice of the games, and increased the international influence of TCL brand.

– In respect of environment protection, the Group has been active in promoting use of new energy saving technologies and adopting internally environmental-friendly measures such as bringing own water cups, "Walk for the Environment", to strengthen the environment protection awareness of the staff.

REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There was no significant change in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 68 to 171.

The Board does not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 172. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company had an aggregate of HK$3,233,686,000 standing to credit of its share premium account and HK$738,936,000 standing to the credit of its capital reserve account. As the aforesaid capital reserve represents premium arising on an issue of shares of the Company, the entire amount of HK$738,936,000 standing to the credit of the capital reserve account of the Company will be transferred to the share premium account in compliance with the articles of association of the Company and Cayman law. Subject to compliance with certain requirements under Cayman Law, share premium may be applied for payment of dividend by the Company. After transfer of the capital reserve as aforesaid, the amount which can be utilised for payment of dividend by the Company in future would become HK$3,972,622,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$252,000.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	17%
– the five largest suppliers combined	35%

Sales

– the largest customer	6%
– the five largest customers combined	21%

None of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. LI Dongsheng

Mr. BO Lianming (appointed as executive director and vice chairman effective from 14 May 2010, appointed as member of the executive committee and ceased as vice chairman effective from 26 August 2010)

Mr. ZHAO Zhongyao (appointed as executive director, chief executive officer and member of the executive committee effective from 10 September 2010)

Mr. YU Guanghui (resigned as chief executive officer effective from 10 September 2010)

Ms. XU Fang

Mr. SHI Wanwen (resigned as executive director effective from 10 September 2010)

Non-executive directors:

Mr. Albert Thomas DA ROSA, Junior

Mr. HUANG Xubin (redesignated as NED effective from 22 March 2010)

Mr. LEONG Yue Wing (redesignated as NED effective from 1 April 2010)

Independent non-executive directors:

Mr. TANG Guliang

Mr. Robert Maarten WESTERHOF

Ms. WU Shihong

In accordance with article 99 of the Company's articles of association and the Corporate Governance Code adopted by the Company, Mr. BO Lianming and Mr. ZHAO Zhongyao will hold office until the next general meeting of the Company and shall then be eligible for re-election. The Board proposed Mr. BO Lianming and Mr. ZHAO Zhongyao to be elected as executive directors of the Company at the forthcoming AGM.

In accordance with article 116 of the Company's articles of association, Mr. YU Guanghui, Mr. LEONG Yue Wing and Mr. TANG Guliang will retire by rotation, of which Mr. LEONG Yue Wing and Mr. TANG Guliang will also hold their office until the conclusion of the forthcoming AGM under their respective term of engagement. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

Mr. HUANG Xubin, Mr. Albert Thomas DA ROSA, Junior, Mr. Robert Maarten WESTERHOF and Ms. WU Shihong will hold office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM.

By a Board resolution passed on 22 February 2011, the specific terms of all NEDs and INEDs have been extended to end on the AGM of the Company which takes place on the third year after the AGM of the Company in which they are elected or re-elected. The extension will take effect from the passing of the related resolutions at the forthcoming AGM.

Accordingly, Mr. Albert Thomas DA ROSA, Junior, Mr. HUANG Xubin and Mr. LEONG Yue Wing, all being NEDs and Mr. TANG Guliang, Mr. Robert Maarten WESTERHOF and Ms. WU Shihong, all being INEDs of the Company, if re-elected, will hold office until the conclusion of the AGM to be held in 2014.

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

The Company has received from each of its INEDS an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the INEDS to be independent.

Particulars of the remuneration of the directors and the five highest paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 38 to 49 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the remuneration payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 34 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 26 to 35 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2010, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(A) Interests in the Company – Long Positions

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
LI Dongsheng	18,411,731	–	3,194,756	21,606,487	1.989%
BO Lianming	1,807	–	340,357	342,164	0.031%
ZHAO Zhongyao	2,830,000	–	2,630,157	5,460,157	0.503%
YU Guanghui	230,946	–	697,663	928,609	0.085%
XU Fang	–	–	330,210	330,210	0.030%
Albert Thomas DA ROSA, Junior	–	–	30,000	30,000	0.003%
HUANG Xubin	–	–	295,229	295,229	0.027%
LEONG Yue Wing	594,672	–	–	594,672	0.055%
TANG Guliang	–	–	30,000	30,000	0.003%
Robert Maarten WESTERHOF	–	–	30,000	30,000	0.003%
WU Shihong	–	–	30,000	30,000	0.003%

(B) Interests in Associated Corporation of the Company – Long Positions

TCL Corporation

Name of Director	Number of ordinary shares held Personal interests	Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Associated Corporation
LI Dongsheng	232,916,800	–	–	232,916,800	5.496%
BO Lianming	534,894	–	–	534,894	0.013%
ZHAO Zhongyao	2,371,652	–	–	2,371,652	0.056%
XU Fang	–	20,000	–	20,000	0.0005%

(C) Interests in Associated Corporation of the Company – Long Positions

TCL Communication

Name of Director	Number of ordinary shares held: Personal interests	Number of ordinary shares held: Family interests	Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Associated Corporation
LI Dongsheng	24,126,120	3,000,000	8,390,888	35,517,008	3.236%
BO Lianming	65,700	–	1,720,632	1,786,332	0.163%
ZHAO Zhongyao	–	–	565,899	565,899	0.052%
YU Guanghui	–	–	740	740	0.0001%
XU Fang	–	–	1,104,528	1,104,528	0.101%
HUANG Xubin	–	–	1,535,841	1,535,841	0.140%

Notes:

1. TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholder of the Company.

2. TCL Communication is a subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2010, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares of the Company:

Shareholders	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	565,239,284 *(Note 1)*	52.03%

Notes:

1. TCL Corporation was deemed to be interested in 565,239,284 shares held by T.C.L. Industries Holdings (H.K.) Limited, its direct wholly owned subsidiary, for the purpose of the SFO.

2. The following Directors are directors/employees of TCL Corporation who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

   (a) Mr. LI Dongsheng is the chairman and CEO of TCL Corporation;
   (b) Mr. BO Lianming is an executive director and COO of TCL Corporation;
   (c) Mr. ZHAO Zhongyao is an executive director and senior vice president of TCL Corporation;
   (d) Mr. YU Guanghui is a vice president of TCL Corporation;
   (e) Ms. XU Fang is a vice president and Human Resources Director of TCL Corporation; and
   (f) Mr. HUANG Xubin is the CFO of TCL Corporation.

Save as disclosed above, as at 31 December 2010, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures'' above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The following share options were outstanding under the share option schemes during the year:

Name or category of participant	Number of share options						Date of grant of share options	Exercise price of share options	Exercise period of share options	Price of Company's shares	
	At 1 January 2010	Reclassification	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2010		HK$		At grant date HK$	At exercise date HK$
Directors											
Executive directors											
LI Dongsheng	1,799,002	–	–	–	–	1,799,002	4-Jul-07	6.30	Note 1	6.00	N/A
	1,395,754	–	–	–	–	1,395,754	25-Aug-08	2.45	Note 2	2.33	N/A
	3,194,756	–	–	–	–	3,194,756					
BO Lianming @	–	182,003	–	–	–	182,003	4-Jul-07	6.30	Note 1	6.00	N/A
	–	158,354	–	–	–	158,354	25-Aug-08	2.45	Note 2	2.33	N/A
	–	340,357	–	–	–	340,357					
ZHAO Zhongyao @	–	130,003	–	–	–	130,003	4-Jul-07	6.30	Note 1	6.00	N/A
	–	158,354	–	–	–	158,354	25-Aug-08	2.45	Note 2	2.33	N/A
	–	–	2,341,800	–	–	2,341,800	8-Nov-10	3.60	Note 3	3.60	N/A
	–	288,357	2,341,800	–	–	2,630,157					
YU Guanghui	338,452	–	–	–	–	338,452	4-Jul-07	6.30	Note 1	6.00	N/A
	359,211	–	–	–	–	359,211	25-Aug-08	2.45	Note 2	2.33	N/A
	697,663	–	–	–	–	697,663					
XU Fang	23,600	–	–	–	–	23,600	4-Jul-07	6.30	Note 1	6.00	N/A
	123,610	–	–	–	–	123,610	25-Aug-08	2.45	Note 2	2.33	N/A
	–	–	183,000	–	–	183,000	8-Nov-10	3.60	Note 3	3.60	N/A
	147,210	–	183,000	–	–	330,210					
SHI Wanwen #	295,895	(295,895)	–	–	–	–	4-Jul-07	6.30	Note 1	6.00	N/A
	488,370	(488,370)	–	–	–	–	25-Aug-08	2.45	Note 2	2.33	N/A
	784,265	(784,265)	–	–	–	–					
	4,823,894	(155,551)	2,524,800	–	–	7,193,143					
Non-Executive directors											
Albert Thomas DA ROSA, Junior	30,000	–	–	–	–	30,000	25-Aug-08	2.45	Note 2	2.33	N/A
HUANG Xubin *	72,249	–	–	–	–	72,249	4-Jul-07	6.30	Note 1	6.00	N/A
	222,980	–	–	–	–	222,980	25-Aug-08	2.45	Note 2	2.33	N/A
	295,229	–	–	–	–	295,229					
LEONG Yue Wing *	1,655,572	–	–	(410,000)	(1,245,572)	–	25-Aug-08	2.45	Note 2	2.33	8.85
TANG Guliang	30,000	–	–	–	–	30,000	25-Aug-08	2.45	Note 2	2.33	N/A
Robert Maarten WESTERHOF	30,000	–	–	–	–	30,000	25-Aug-08	2.45	Note 2	2.33	N/A
WU Shihong	30,000	–	–	–	–	30,000	25-Aug-08	2.45	Note 2	2.33	N/A
	2,070,801	–	–	(410,000)	(1,245,572)	415,229					
Other employees and those who have contributed or may contribute to the Group	9,547,033	(16,111)	–	(1,446,688)	(102,092)	7,982,142	4-Jul-07	6.30	Note 1	6.00	8.30
	10,240,494	171,662	–	(728,083)	(532,335)	9,151,738	25-Aug-08	2.45	Note 2	2.33	4.94
	–	–	878,200	–	(256,100)	622,100	8-Nov-10	3.60	Note 3	3.60	N/A
	19,787,527	155,551	878,200	(2,174,771)	(890,527)	17,755,980					
	26,682,222	–	3,403,000	(2,584,771)	(2,136,099)	25,364,352					

* Mr. HUANG Xubin and Mr. LEONG Yue Wing ceased to be executive directors and were re-designated as NEDs of the Company on 22 March 2010 and 1 April 2010, respectively.

@ Mr. BO Lianming and Mr. ZHAO Zhongyao were appointed as executive directors of the Company on 14 May 2010 and 10 September 2010, respectively.

Mr. SHI Wanwen resigned as an executive director of the Company on 10 September 2010.

Note 1 One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 2 One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

Note 3 50% of such share options is exercisable after the expiry of 6 months from the date of grant, and the remaining 50% is exercisable after the expiry of 18 months from the date of grant, up to 7 November 2015.

SHARE AWARD SCHEMES

The Board on 6 February 2008 resolved to adopt the Share Award Scheme (the "Share Award Scheme") pursuant to which existing shares would be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the scheme.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and a number of continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2010:

(a) On 26 July 2010, TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King (Huizhou)", an indirect wholly owned subsidiary of the Company) and TCL Corporation entered into a transfer agreement pursuant to which TCL King (Huizhou) has agreed to transfer to TCL Corporation all land use rights in respect of 1,549 square meters of land located at Section 19, Zhongkai Development Zone, Huizhou, Guangdong, PRC at a consideration of RMB594,816 (equivalent to approximately HK$683,000).

At the same date, TCL King (Huizhou) and Huizhou Hongshi Property Investment Company Limited ("Huizhou Property") entered into a transfer agreement pursuant to which TCL King (Huizhou) has agreed to transfer to Huizhou Property all land use rights in respect of 8,574.8 square meters of land located at Section 19, Zhongkai Development Zone, Huizhou, Guangdong, PRC at a consideration of RMB4,070,000 (equivalent to approximately HK$4,677,000).

(b) On 10 December 2010, T.C.L. Industries Holdings (H.K.) Limited (the "Purchaser", an immediate holding company of the Company) and TCL International Electronics (BVI) Limited (the "Vendor", a wholly owned subsidiary of the Company) entered into a share transfer agreement pursuant to which the Vendor has agreed to transfer to the Purchaser the entire equity interest in TCL Digital Technology (Shenzhen) Company Limited (an indirect wholly owned subsidiary of the Company) at a consideration of RMB41,500,000 (equivalent to approximately HK$48,268,000).

(c) On 31 December 2010, Shenzhen TCL New Technology Company Limited ("TCL New Technology", a wholly owned subsidiary of the Company) and TCL Optoelectronics Tech (Shenzhen) Company Limited ("TCL Optoelectronics", a non-wholly owned subsidiary of TCL Corporation) entered into 57 club membership acquisition agreements pursuant to which TCL New Technology has agreed to acquire from TCL Optoelectronics the 57 entire membership interests (including but not limited to the exclusive right to use the 57 non-commodity premises with a total gross floor area of 2,965.71 square meters located at TCL Industrial Park, Liu Xian Dong, Xili Nanshan District, Shenzhen, PRC) in the R&D Elite Club at a total consideration of RMB21,954,134 (equivalent to approximately HK$25,226,000).

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2010:

(a) Pursuant to the TCL Trademark License Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20- year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sublicensable and non-transferable license to use certain of its registered trademarks including "TCL" for the manufacture and sale of TV products. During the year, no payment has been made by the Group to TCL Corporation as royalties and HK$165,451,000 was paid by the Group to TCL Corporation as reimbursement of branding advertising costs.

(b) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 (further extended by the first and second supplemental agreement to 31 December 2011) entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Group for the supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from TCL Group amounting to HK$7,418,000 during the year.

(c) Pursuant to the Master Sourcing (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$650,871,000; (ii) purchased overseas materials from TCL Group amounting to HK$1,632,332,000 during the year.

(d) Pursuant to the Master Supply (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from TCL Group amounting to HK$529,316,000; (ii) sold goods to TCL Group amounting to HK$285,858,000 during the year.

(e) Pursuant to the Financial Services Framework (Renewal) Agreement dated 9 October 2008 entered into among the Company, TCL Corporation and TCL Finance Company Limited ("TCL Finance"), a non-wholly owned subsidiary of TCL Corporation, the Group paid fees and commissions for the other financial services thereunder amounting to HK$443,000 during the year. The maximum outstanding balance of deposits placed by the Group with TCL Finance during the year was HK$886,902,000.

(f) Pursuant to the Master Logistics Service Supply Agreement dated 5 January 2007 (further extended by the supplemental agreement to 31 December 2011) entered into between the Company and Shenzhen Speed Distribution Platform Company Limited (the "Speed Distribution"), a wholly owned subsidiary of TCL Corporation, the Group may from time to time request Speed Distribution for provision of certain logistics services. The Group paid HK$52,183,000 to Speed Distribution for all the cost and expenses incurred by Speed Distribution for provision of the logistics services during the year.

(g) Pursuant to the Master Subcontracting (Renewal) Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, the Group paid subcontracting fees amounting to HK$13,338,000 during the year.

(h) Pursuant to the Master Call Centre Services Supply Agreement dated 5 January 2007 (further extended by the supplemental agreement to 31 December 2011) entered into between the Company and TCL Corporation, TCL Corporation has agreed to provide the call centre services to the Group. The Group paid HK$17,587,000 to TCL Corporation for all the cost and expenses incurred by TCL Corporation for provision of the call centre services during the year.

(i) Pursuant to the Loan and Charge Agreement dated 9 October 2008 entered into between the Company and TCL Corporation, a facility amounting to HK$88,381,000 thereunder was utilised by the Group and certain items of property, plant and equipment and prepaid land lease payments of the Group, amounting to HK$83,387,000 and HK$12,341,000 respectively were pledged as security thereunder during the year.

(j) Pursuant to the New Lease Framework (Tenant) Agreement dated 9 October 2008 entered into between the Company as tenant and TCL Corporation as landlord, the Group paid rental, repair and maintenance expenses to TCL Corporation amounting to HK$23,306,000 during the year.

(k) Pursuant to the New Lease Framework (Landlord) Agreement dated 9 October 2008 entered into between TCL King Electronics (Shenzhen) Company Limited ("TCL King Shenzhen", an indirect wholly owned subsidiary of the Company) as landlord and TCL Corporation as tenant, TCL King Shenzhen received rental, repair and maintenance fees from TCL Corporation amounting to HK$1,684,000 during the year.

(l) Pursuant to a lease agreement (as stipulated in the Framework Agreement) dated 26 June 2009 entered into between TCL King Electrical Appliances Wuxi Company Limited (an indirect 70% owned subsidiary of the Company) and TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi", an associate of TCL Corporation), the Group paid rental and management fee to TCL Wuxi amounting to HK$13,359,000 during the year.

(m) Pursuant to the Master Mainland Supply Agreement dated 19 August 2009 entered into between the Company and TCL Corporation, the Group purchased air-conditioner products from TCL Group amounting to HK$69,059,000 during the year.

(n) Pursuant to the Service Agreement dated 10 December 2010 entered into between TCL Electrical Appliance Sales Company Limited (an indirect wholly owned subsidiary of the Company) and Guangzhou Joy Network & Technology Company Limited ("Joy Network", an associate of TCL Corporation), the Group paid service fees to Joy Network amounting to HK$4,502,000 during the year.

(o) Pursuant to the Tenancy Agreement dated 31 December 2010 entered into between Shenzhen TCL New Technology Company Limited (an indirect wholly owned subsidiary of the Company) and TCL Optoelectronics Tech (Shenzhen) Company Limited ("TCL Optoelectronics", a non-wholly owned subsidiary of TCL Corporation), the Group did not pay any rental fee to TCL Optoelectronics during the year.

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certificated Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 38 to 49 in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dongsheng
Chairman

Hong Kong
25 February 2011

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

To the shareholders of TCL Multimedia Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of TCL Multimedia Technology Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 68 to 171, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
25 February 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
TURNOVER	5	**26,948,627**	30,342,550
Cost of sales		**(23,183,562)**	(25,418,948)
Gross profit		**3,765,065**	4,923,602
Other revenue and gains		**561,632**	244,569
Selling and distribution costs		**(3,769,186)**	(3,261,763)
Administrative expenses		**(710,695)**	(897,374)
Research and development costs		**(205,745)**	(222,755)
Other operating expenses		**(231,798)**	(84,133)
		(590,727)	702,146
Finance costs	6	**(233,185)**	(127,323)
Share of profits and losses of:			
Jointly-controlled entities		**(5,860)**	(6,507)
Associates		**(5,472)**	3,103
PROFIT/(LOSS) BEFORE TAX	7	**(835,244)**	571,419
Income tax expense	10	**(138,169)**	(167,359)
PROFIT/(LOSS) FOR THE YEAR		**(973,413)**	404,060
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange fluctuation reserve:			
Translation of foreign operations		**109,475**	(44,410)
Release upon disposal and liquidation of subsidiaries		**(10,074)**	(17,043)
Release upon disposal of an associate		**(21)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**99,380**	(61,453)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(874,033)**	342,607

	Notes	2010 HK$'000	2009 HK$'000
Profit/(loss) attributable to:			
Owners of the parent	11	**(983,161)**	396,523
Non-controlling interests		**9,748**	7,537
		(973,413)	404,060
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**(887,458)**	335,151
Non-controlling interests		**13,425**	7,456
		(874,033)	342,607
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK(92.05) cents**	HK39.15 cents
Diluted		**HK(92.05) cents**	HK39.13 cents

Details of the dividends are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,497,821**	1,603,372
Prepaid land lease payments	15	**106,207**	70,944
Goodwill	16	**119,638**	119,638
Other intangible assets	17	**965**	2,492
Investments in jointly-controlled entities	19	**9,268**	109,772
Investments in associates	20	**165,027**	99,183
Available-for-sale investments	21	**6,677**	1,182
Deferred tax assets	33	**25,736**	19,504
Total non-current assets		**1,931,339**	2,026,087
CURRENT ASSETS			
Inventories	22	**4,925,369**	4,917,896
Trade receivables	23	**3,236,589**	4,078,239
Bills receivable	24	**2,180,665**	822,115
Other receivables	26	**1,537,322**	832,630
Tax recoverable		**3,326**	13,530
Pledged deposits	27	**2,374,328**	86,725
Cash and bank balances	27	**2,132,619**	2,078,724
		16,390,218	12,829,859
Non-current assets classified as held for sale	28	**179,096**	65,215
Total current assets		**16,569,314**	12,895,074
CURRENT LIABILITIES			
Trade payables	29	**5,289,926**	6,022,703
Bills payable		**1,310,418**	683,076
Other payables and accruals	30	**2,371,266**	1,784,480
Interest-bearing bank and other borrowings	31	**4,863,517**	1,761,048
Due to TCL Corporation	25	**590,059**	129,457
Due to T.C.L. Industries	25	**–**	38,146
Tax payable		**173,591**	163,458
Provisions	32	**367,284**	221,796
Total current liabilities		**14,966,061**	10,804,164
NET CURRENT ASSETS		**1,603,253**	2,090,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,534,592**	4,116,997

	Notes	2010 HK$'000	2009 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,534,592**	4,116,997
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**265,143**	369,192
Deferred tax liabilities	33	**12,994**	11,818
Pensions and other post-employment benefits	34	**6,798**	23,522
Total non-current liabilities		**284,935**	404,532
Net assets		**3,249,657**	3,712,465
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**1,086,425**	1,011,840
Reserves	36	**2,058,021**	2,487,418
Proposed final dividend	12	**–**	121,421
		3,144,446	3,620,679
Non-controlling interests		**105,211**	91,786
Total equity		**3,249,657**	3,712,465

LI Dongsheng
Director

ZHAO Zhongyao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

Group	Issued capital HK$'000 (Note 35)	Share premium account HK$'000 (Note 35)	Share option reserve HK$'000 (Note 36 (a)(i))	Capital reserve HK$'000 (Note 36 (a)(ii))	Reserve funds HK$'000 (Note 36 (a)(iii))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000 (Note 35)	Awarded share reserve HK$'000 (Note 36 (a)(iv))	Proposed final dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
	Attributable to owners of the parent												
At 1 January 2009	1,021,827	2,885,594	41,022	59,099	784,342	373,919	(1,869,573)	(7,808)	–	–	3,288,422	124,684	3,413,106
Profit for the year	–	–	–	–	–	–	396,523	–	–	–	396,523	7,537	404,060
Other comprehensive income/(loss) for the year:													
Exchange differences on:													
Translation of foreign operations	–	–	–	–	–	(44,426)	–	–	–	–	(44,426)	16	(44,410)
Released upon disposal and liquidation of subsidiaries	–	–	–	–	–	(16,946)	–	–	–	–	(16,946)	(97)	(17,043)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(61,372)	396,523	–	–	–	335,151	7,456	342,607
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	(4,041)	(4,041)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(59,563)	(59,563)
Shares repurchased	(19,494)	(36,112)	–	–	–	–	–	–	–	–	(55,606)	–	(55,606)
Equity-settled share option arrangements	–	–	15,146	–	–	–	–	–	–	–	15,146	–	15,146
Issue of shares upon exercise of share options	9,507	49,324	(15,362)	–	–	–	–	–	–	–	43,469	–	43,469
Share options lapsed during the year	–	–	(8,494)	–	–	–	8,494	–	–	–	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	–	–	–	(19,201)	–	–	(19,201)	–	(19,201)
Vesting of shares under the Award Scheme	–	–	–	–	–	–	–	9,859	3,439	–	13,298	–	13,298
Transfer from retained profits	–	–	–	–	73,852	–	(73,852)	–	–	–	–	–	–
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	23,250	23,250
Proposed final 2009 dividend	–	(121,421)	–	–	–	–	–	–	–	121,421	–	–	–
At 31 December 2009	1,011,840	2,777,385	32,312	59,099	858,194	312,547	(1,538,408)	(17,150)	3,439	121,421	3,620,679	91,786	3,712,465

Group	Attributable to owners of the parent											Non-controlling interests HK$'000	Total equity HK$'000
	Issued capital HK$'000 (Note 35)	Share premium account HK$'000 (Note 35)	Share option reserve HK$'000 (Note 36 (a)(i))	Capital reserve HK$'000 (Note 36 (a)(ii))	Reserve funds HK$'000 (Note 36 (a)(iii))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000 (Note 35)	Awarded share reserve HK$'000 (Note 36 (a)(iv))	Proposed final dividends HK$'000	Total HK$'000		
At 31 December 2009 and 1 January 2010	1,011,840	2,777,385	32,312	59,099	858,194	312,547	(1,538,408)	(17,150)	3,439	121,421	3,620,679	91,786	3,712,465
Profit/(loss) for the year	–	–	–	–	–	–	(983,161)	–	–	–	(983,161)	9,748	(973,413)
Other comprehensive income/(loss) for the year:													
Exchange differences on:													
Translation of foreign operations	–	–	–	–	–	105,798	–	–	–	–	105,798	3,677	109,475
Released upon disposal and liquidation of subsidiaries	–	–	–	–	–	(10,074)	–	–	–	–	(10,074)	–	(10,074)
Released upon disposal of an associate	–	–	–	–	–	(21)	–	–	–	–	(21)	–	(21)
Total comprehensive income/(loss) for the year	–	–	–	–	–	95,703	(983,161)	–	–	–	(887,458)	13,425	(874,033)
Dividends paid	–	(7,939)	–	–	–	–	–	–	–	(121,421)	(129,360)	–	(129,360)
Equity-settled share option arrangements	–	–	5,840	–	–	–	–	–	–	–	5,840	–	5,840
Issue of shares upon exercise of share options	2,585	13,520	(4,202)	–	–	–	–	–	–	–	11,903	–	11,903
Share options lapsed during the year	–	–	(1,235)	–	–	–	1,235	–	–	–	–	–	–
Placement of new shares	72,000	462,960	–	–	–	–	–	–	–	–	534,960	–	534,960
Share issue expenses	–	(12,240)	–	–	–	–	–	–	–	–	(12,240)	–	(12,240)
Vesting of shares under the Award Scheme	–	–	–	–	–	–	–	119	3	–	122	–	122
Transfer from retained profits	–	–	–	–	23,514	–	(23,514)	–	–	–	–	–	–
At 31 December 2010	1,086,425	3,233,686*	32,715*	59,099*	881,708*	408,250*	(2,543,848) *	(17,031) *	3,442*	–	3,144,446	105,211	3,249,657

* These reserve accounts comprise the consolidated reserves of HK$2,058,021,000 (2009: HK$2,487,418,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(835,244)**	571,419
Adjustments for:			
Finance costs	6	**233,185**	127,323
Share of profits and losses of jointly-controlled entities and associates		**11,332**	3,404
Loss/(gain) on disposal of items of property, plant and equipment and the associated prepaid land lease payments, net	7	**(6,971)**	7,884
Gain on disposal of subsidiaries	7	**(108,330)**	(45,333)
Gain on liquidation of subsidiaries	7	**(1,168)**	(20,390)
Gain on disposal of an associate	7	**(2,474)**	–
Fair value losses on derivative financial instruments, net – transactions not qualifying as hedges	7	**16,508**	7,323
Bank interest income	7	**(41,783)**	(14,566)
Depreciation	7	**234,480**	236,165
Impairment of items of property, plant and equipment	7	**14,740**	9,830
Impairment of other intangible assets	7	**–**	10,327
Amortisation of other intangible assets	7	**1,579**	4,161
Amortisation of prepaid land lease payments	7	**2,490**	2,339
Equity-settled share option expense	7	**5,840**	15,146
Equity-settled Award Scheme expense	7	**122**	13,298
		(475,694)	928,330
Decrease/(increase) in inventories		**136,382**	(1,850,549)
Decrease/(increase) in trade receivables		**943,074**	(125,709)
Increase in bills receivable		**(1,329,611)**	(146,379)
Increase in other receivables		**(740,858)**	(74,947)
Increase/(decrease) in trade payables		**(858,863)**	1,613,357
Increase/(decrease) in bills payable		**604,403**	(137,177)
Increase in other payables and accruals		**554,412**	398,772
Increase in provisions		**134,487**	90,905
Decrease in pensions and other post-employment benefits		**(16,451)**	(528)
Cash generated from/(used in) operations		**(1,048,719)**	696,075
Interest paid		**(233,185)**	(134,767)
Income taxes paid		**(120,969)**	(165,619)
Net cash flows from/(used in) operating activities		**(1,402,873)**	395,689

	Notes	2010 HK$'000	2009 HK$'000
Net cash flows from/(used in) operating activities		**(1,402,873)**	395,689
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**41,783**	14,566
Purchases of items of property, plant and equipment		**(150,961)**	(490,613)
Prepayment of land lease payments		**(36,908)**	(22,213)
Proceeds from disposal of items of property, plant and equipment and the associated prepaid land lease payments		**28,971**	20,301
Investments in associates		**(74,106)**	(10,216)
Disposal of subsidiaries	37(a)	**97,443**	87,598
Advance receipt in respect of the disposal of the Pledged Interest	37(a)	**–**	65,215
Liquidation of subsidiaries	37(b)	**–**	(19)
Disposal of an associate		**10,237**	–
Purchases of available-for-sale investments		**(5,495)**	(174)
Increase in pledged deposits		**(2,284,364)**	(86,725)
Net cash flows used in investing activities		**(2,373,400)**	(422,280)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	**534,960**	–
Share issue expenses	35	**(12,240)**	–
Proceeds from issue of shares upon exercise of share options	35	**11,903**	43,469
Repurchase of shares	35	**–**	(55,606)
Purchase of shares for the Award Scheme	35	**–**	(19,201)
New bank and other loans		**9,888,655**	11,650,859
Repayment of bank loans		**(6,969,390)**	(11,741,624)
Increase in loans from TCL Corporation		**444,401**	124,635
Decrease in loans from T.C.L. Industries		**–**	(79,379)
Capital contribution from a non-controlling shareholder		**–**	23,250
Dividends paid		**(129,360)**	–
Dividends paid to non-controlling shareholders		**–**	(4,041)
Net cash flows from/(used in) financing activities		**3,768,929**	(57,638)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,344)**	(84,229)
Cash and cash equivalents at beginning of year		**2,078,724**	2,157,768
Effect of foreign exchange rate changes, net		**61,239**	5,185
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,132,619**	2,078,724
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,132,619**	2,078,724

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**906,791**	1,545,920
CURRENT ASSETS			
Due from subsidiaries	18	**2,338,630**	1,613,114
Other receivables	26	**45,166**	42,275
Cash and bank balances		**1,527**	2,222
Total current assets		**2,385,323**	1,657,611
CURRENT LIABILITIES			
Other payables and accruals	30	**5,426**	11,724
Interest-bearing bank borrowings	31	**615,181**	–
Tax payable		**3,836**	3,810
Provisions	32	**103,554**	–
Total current liabilities		**727,997**	15,534
NET CURRENT ASSETS		**1,657,326**	1,642,077
Net assets		**2,564,117**	3,187,997
EQUITY			
Issued capital	35	**1,086,425**	1,011,840
Reserves	36	**1,477,692**	2,054,736
Proposed final dividend	12	**–**	121,421
Total equity		**2,564,117**	3,187,997

LI Dongsheng
Director

ZHAO Zhongyao
Director

1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- manufacture and sale of colour television sets and trading of related components
- manufacture and sale of other audio-visual products

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2.1 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 (the "HKICPA"), 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 derivative financial instruments, which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2010 (continued)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on the financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(a) HKFRS 3 (Revised) *Business Combinations and* HKAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009*

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases in the PRC, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in the PRC remained as operating leases. As the Group's current accounting policy for leases in Hong Kong aligns with the requirements of HKAS 17 and HK Interpretation 4, the amendments have no financial impact on the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes: Deferred tax – Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss and other comprehensive income of the consolidated statement of comprehensive income, respectively.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of impairment of the asset transferred.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss of the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss of the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets classified as held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss of the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Leasehold land under finance leases	Over the lease terms
Buildings	2% – 4.5%
Leasehold improvements	25% – 50%
Plant and machinery	9% – 20%
Furniture, fixtures and equipment	18% – 25%
Motor vehicles	18% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss of the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and installation and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to profit or loss of the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss of the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss of the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss of the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss of the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss of the statement of comprehensive income in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss of the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss of the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in profit or loss of the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss of the statement of comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss of the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss of the statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on other operating expenses in these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss of the statement of comprehensive income, is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss of the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss of the statement of comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss of the statement of comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to TCL Corporation and T.C.L. Industries, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss of the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss of the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss of the statement of comprehensive income.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss of the statement of comprehensive income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss of the statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss of the statement of comprehensive income.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is credited to profit or loss of the statement of comprehensive income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) income from the rendering of services, when the services are rendered;

(d) rental income, on a time proportion basis over the lease terms; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 35 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss of the statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss of the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Pension schemes (continued)

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to profit or loss of the statement of comprehensive income as they become payable in accordance with the rules of the pension schemes.

Certain subsidiaries operate defined benefit pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss of the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss of the statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Derecognition of financial assets – Receivables purchase arrangements

The Group has entered into certain receivables purchase arrangements with its banks on its trade receivables. As at 31 December 2010, the Group has determined that it has transferred substantially all risks and rewards of ownership associated with these trade receivables which are purchased by the relevant banks. Accordingly, the relevant trade receivables are fully derecognised.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was HK$119,638,000 (2009: HK$119,638,000). Further details are given in note 16 to the financial statements.

(ii) Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

(iii) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying amount of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iv) Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes provision against obsolete and slow-moving items. Management reassesses the estimation at the end of the reporting period.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

(v) Warranty provisions

As further explained in note 32 to the financial statements, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

(vi) Provision for litigation

As further discussed in notes 32 and 38(b) to the financial statements, the Group was involved in a number of legal proceedings arising from the wind down and insolvency of the Group's business in Europe in prior years. Management determines the provision for litigation based on their best estimates, after considering advice from the Group's legal counsels. Where the final outcome of the claims and negotiations with the parties involved is different from the estimation made by management, such difference will impact the provision for litigation in the year in which such litigation is settled.

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair values of the share options granted and financial instruments is disclosed in notes 34, 35 and 42, respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their geographical television segments and other product types and has three reportable operating segments as follows:

(a) Television segment – manufactures and sells television sets and trades related components in:
- the PRC market
- the Overseas market

(b) AV segment – manufactures and sells audio-visual products; and

(c) Others segment – comprises of information technology and other businesses, including sales of white goods, mobile phones and air conditioners.

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) before tax except that interest income, finance costs, share of profits and losses of jointly-controlled entities and associates as well as head office and corporate expenses are excluded from such measurement.

4. OPERATING SEGMENT INFORMATION (continued)

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.

Group	Television – PRC market		Television – Overseas market		AV		Others		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:												
Sales to external customers	**15,790,369**	15,864,796	**6,878,761**	10,424,690	**3,573,778**	3,819,373	**705,719**	233,691	**–**	–	**26,948,627**	30,342,550
Intersegment sales	**2,528,666**	2,984,484	**5,621**	1,030	**29,238**	47,692	**26,426**	10,667	**(2,589,951)**	(3,043,873)	**–**	–
Total	**18,319,035**	18,849,280	**6,884,382**	10,425,720	**3,603,016**	3,867,065	**732,145**	244,358	**(2,589,951)**	(3,043,873)	**26,948,627**	30,342,550
Segment results	**(492,021)**	506,224	**(344,994)**	96,032	**203,765**	192,207	**131,600**	1,510	**–**	–	**(501,650)**	795,973
Bank interest income											**41,783**	14,566
Corporate expenses											**(130,860)**	(108,393)
Finance costs											**(233,185)**	(127,323)
Share of profits and losses of:												
Jointly-controlled entities	**(7,822)**	(6,418)	**1,962**	(89)	**–**	–	**–**	–	**–**	–	**(5,860)**	(6,507)
Associates	**(9,849)**	53	**–**	–	**–**	–	**4,377**	3,050	**–**	–	**(5,472)**	3,103
Profit/(loss) before tax											**(835,244)**	571,419
Income tax expense											**(138,169)**	(167,359)
Profit/(loss) for the year											**(973,413)**	404,060
Other segment information:												
Depreciation and amortisation	**158,494**	138,451	**64,548**	87,348	**13,088**	11,266	**2,419**	5,600	**–**	–	**238,549**	242,665
Impairment recognised in profit or loss	**–**	–	**14,740**	9,830	**–**	–	**–**	10,327	**–**	–	**14,740**	20,157

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

Group	Mainland China		Europe		North America		Others		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**16,020,022**	16,068,870	**1,835,839**	1,572,482	**537,022**	3,217,528	**8,555,744**	9,483,670	**26,948,627**	30,342,550
Non-current assets	**1,456,892**	1,453,340	**206,353**	221,761	**181,393**	221,080	**60,965**	110,402	**1,905,603**	2,006,583

The revenue information above is based on the location of the customers. The non-current asset information above is based on the location of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK$1,523,730,000 (2009: HK$2,679,856,000) was derived from sales by the Television – PRC market (2009: Television – Overseas market) segment to a single customer.

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

6. FINANCE COSTS

	Group	
	2010	2009
	HK$'000	HK$'000
Interest on:		
Bank loans and overdrafts	**178,324**	108,418
Loans from TCL Corporation	**45,478**	13,884
Loan from T.C.L. Industries	**–**	640
Loans from an associate	**9,383**	10,195
Loan from an associate of TCL Corporation	**–**	1,630
Less: Interest capitalised	**–**	(7,444)
Total	**233,185**	127,323

7. PROFIT/(LOSS) BEFORE TAX

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

	Group	
	2010	2009
	HK$'000	HK$'000
Cost of inventories sold	**23,160,888**	25,400,661
Depreciation (note 14)	**234,480**	236,165
Research and development costs	**251,706**	285,073
Less: Government grants released*	**(45,961)**	(62,318)
	205,745	222,755
Amortisation of other intangible assets (note 17)	**1,579**	4,161
Minimum lease payments under operating leases in respect of land and buildings	**94,065**	116,328
Amortisation of prepaid land lease payments (note 15)	**2,490**	2,339
Auditors' remuneration	**19,464**	19,612
Employee benefit expense (including directors' remuneration – note 8):		
Wages and salaries	**1,375,760**	1,325,391
Equity-settled share option expense	**5,840**	15,146
Equity-settled Award Scheme expense	**122**	13,298
Defined contribution expense	**109,456**	113,676
Defined benefit expense (note 34)	**149**	2,424
	1,491,327	1,469,935
Foreign exchange differences, net	**(52,106)**	(46,330)
Impairment of items of property, plant and equipment (note 14)**	**14,740**	9,830
Impairment of other intangible assets (note 17)**	**–**	10,327
Impairment of trade receivables (note 23)**	**41,478**	30,156
Write-down of inventories to net realisable value	**78,352**	29,370
Product warranty provision (note 32):		
Additional provision	**132,364**	321,286
Reversal of unutilised provision	**(36,532)**	(16,936)
	95,832	304,350

7. PROFIT/(LOSS) BEFORE TAX (continued)

	Group 2010 HK$'000	Group 2009 HK$'000
Fair value losses on derivative financial instruments, net – transactions not qualifying as hedges	**16,508**	7,323
Realised gains on settlement of derivative financial instruments	**(78,601)**	–
Net rental income	**(7,722)**	(10,446)
Bank interest income	**(41,783)**	(14,566)
Government grants***	**(56,214)**	(13,778)
Loss/(gain) on disposal of items of property, plant and equipment and the associated prepaid land lease payments, net**	**(6,971)**	7,884
Gain on disposal of subsidiaries (note 37(a))	**(108,330)**	(45,333)
Gain on liquidation of subsidiaries (note 37(b))	**(1,168)**	(20,390)
Gain on disposal of an associate	**(2,474)**	–
Provision for litigation (note 32)**	**103,554**	–
Restructuring costs (note 32)**:		
Additional provision	**77,567**	25,936
Reversal of unutilised provision	**(5,541)**	–
	72,026	25,936

Notes:

* Certain government grants have been received for research activities in the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** The impairment of items of property, plant and equipment, impairment of other intangible assets, impairment of trade receivables, net loss on disposal of items of property, plant and equipment and the associated prepaid land lease payments, provision for litigation and restructuring costs are included in "Other operating expenses" on the face of the consolidated statement of comprehensive income.

*** Certain government grants have been received for the enhancement of technologies applied in certain of the Group's production lines in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2010 HK$'000	Group 2009 HK$'000
Fees	**1,726**	1,545
Other emoluments:		
Salaries, allowances and benefits in kind	**2,915**	8,405
Discretionary performance related bonuses	**250**	20,161
Equity-settled share option benefits	**1,444**	3,845
Pension scheme contributions	**124**	328
	4,733	32,739
	6,459	34,284

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options which has been recognised in the profit or loss of the statement of comprehensive income over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

	2010			2009		
	Fees HK$'000	Equity-settled share option benefits HK$'000	Total HK$'000	Fees HK$'000	Equity-settled share option benefits HK$'000	Total HK$'000
Mr. TANG Guliang	**225**	**5**	**230**	225	15	240
Mr. Robert Maarten WESTERHOF	**150**	**5**	**155**	150	15	165
Ms. WU Shihong	**225**	**5**	**230**	225	15	240
	600	**15**	**615**	600	45	645

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2010						
Executive directors:						
Mr. LI Dongsheng	120	650	–	227	–	997
Mr. BO Lianming	76	–	–	65	–	141
Mr. ZHAO Zhongyao	37	496	250	558	35	1,376
Mr. YU Guanghui	120	1,049	–	222	89	1,480
Ms. XU Fang	120	–	–	64	–	184
Mr. HUANG Xubin (a)	27	–	–	10	–	37
Mr. LEONG Yue Wing (b)	30	720	–	–	–	750
Mr. SHI Wanwen	83	–	–	240	–	323
	613	2,915	250	1,386	124	5,288
Non-executive directors:						
Mr. Albert Thomas DA ROSA, Junior	225	–	–	5	–	230
Mr. HUANG Xubin (a)	175	–	–	38	–	213
Mr. LEONG Yue Wing (b)	113	–	–	–	–	113
	513	–	–	43	–	556
	1,126	2,915	250	1,429	124	5,844

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Equity-settled share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2009						
Executive directors:						
Mr. LI Dongsheng	120	650	–	1,855	–	2,625
Mr. YU Guanghui	104	1,086	291	399	59	1,939
Mr. LEONG Yue Wing	120	6,621	19,870	853	269	27,733
Mr. SHI Wanwen	120	–	–	438	–	558
Mr. HUANG Xubin	120	–	–	161	–	281
Ms. XU Fang	50	–	–	79	–	129
Ms. LU Zhongli	16	48	–	–	–	64
Mr. WANG Kangping	70	–	–	–	–	70
	720	8,405	20,161	3,785	328	33,399
Non-executive director:						
Mr. Albert Thomas DA ROSA, Junior	225	–	–	15	–	240
	945	8,405	20,161	3,800	328	33,639

Notes:

(a) Mr. HUANG Xubin, being the executive director of the Company, has been re-designated as a non-executive director of the Company with effect from 22 March 2010.

(b) Mr. LEONG Yue Wing, being the executive director of the Company, has been re-designated as a non-executive director of the Company with effect from 1 April 2010.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

No director was included in the five highest paid employees during the year (2009: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining five (2009: four) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**11,315**	9,894
Discretionary performance related bonuses	**1,328**	1,998
Equity-settled share option benefits	**97**	490
Pension scheme contributions	**1,149**	2,758
	13,889	15,140

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
HK$2,000,001 to HK$2,500,000	**3**	–
HK$3,000,001 to HK$3,500,000	**1**	2
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,500,001 to HK$5,000,000	**–**	1
	5	4

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2010 HK$'000	2009 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	14,440	1,914
Underprovision in prior years	406	1,291
Current – Elsewhere		
Charge for the year	138,251	167,201
Overprovision in prior years	(11,011)	(997)
Deferred (note 33)	(3,917)	(2,050)
Total tax charge for the year	138,169	167,359

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory/applicable rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2010 HK$'000	2009 HK$'000
Profit/(loss) before tax	(835,244)	571,419
Tax at the statutory/applicable tax rates of different countries/jurisdictions	(172,850)	106,592
Lower tax rates for specific provinces or enacted by local authority	(50,623)	(74,042)
Adjustments in respect of current tax of previous periods	(10,605)	294
Profits and losses attributable to jointly-controlled entities and associates	2,833	851
Income not subject to tax	(19,236)	(51,450)
Expenses not deductible for tax	120,649	124,135
Tax losses utilised from previous period	(27,246)	–
Tax losses not recognised	297,985	63,030
Others	(2,738)	(2,051)
Tax charge at the Group's effective rate	138,169	167,359

10. INCOME TAX EXPENSE (continued)

The share of tax attributable to jointly-controlled entities and associates amounting to HK$677,000 (2009: HK$270,000) and HK$2,452,000 (2009: HK$1,022,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" in profit or loss of the consolidated statement of comprehensive income.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions which are subject to income taxes at tax rates ranging from 7.5% to 25%.

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2010 includes a loss of HK$1,035,105,000 (2009: profit of HK$189,838,000) which has been dealt with in the financial statements of the Company (note 36).

12. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year. For the year ended 31 December 2009, the final dividend proposed was HK12.00 cents per ordinary share and the total amounts proposed and paid were HK$121,421,000 and HK$129,360,000, respectively.

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

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

	2010	2009
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in basic and diluted earnings/(loss) per share calculation	**(983,161)**	396,523

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

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**1,068,067,572**	1,012,951,810
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options outstanding during the year	**–**	373,745
Weighted average number of ordinary shares in issue during the year used in diluted earnings/(loss) per share calculation	**1,068,067,572**	1,013,325,555

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2010 in respect of a dilution as the impact of the share options outstanding during the year had an anti-dilutive effect on the basic loss per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010							
At 1 January 2010:							
Cost	1,148,361	103,879	1,400,267	365,366	57,514	21,139	3,096,526
Accumulated depreciation and impairment	(275,483)	(95,392)	(732,763)	(340,225)	(36,821)	(12,470)	(1,493,154)
Net carrying amount	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372
At 1 January 2010, net of accumulated depreciation and impairment	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372
Additions	33,963	12,394	17,185	41,860	4,843	40,716	150,961
Disposals	(3,894)	(2,024)	(8,847)	(1,190)	(748)	(3,332)	(20,035)
Disposal of subsidiaries	(13,609)	(29)	(336)	(547)	(131)	–	(14,652)
Depreciation provided during the year	(53,011)	(6,038)	(123,623)	(46,551)	(5,257)	–	(234,480)
Impairment	–	–	(10,268)	(4,472)	–	–	(14,740)
Transfers	131	5,837	2,506	8,580	47	(17,101)	–
Assets included in non-current assets classified as held for sale (note 28)	(3,603)	(625)	(10,909)	–	–	–	(15,137)
Exchange realignment	21,768	6,414	6,515	6,871	660	304	42,532
At 31 December 2010, net of accumulated depreciation and impairment	854,623	24,416	539,727	29,692	20,107	29,256	1,497,821
At 31 December 2010:							
Cost	1,064,684	119,765	1,129,088	369,534	53,891	41,725	2,778,687
Accumulated depreciation and impairment	(210,061)	(95,349)	(589,361)	(339,842)	(33,784)	(12,469)	(1,280,866)
Net carrying amount	854,623	24,416	539,727	29,692	20,107	29,256	1,497,821

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Land and buildings HK$'000	Leasehold improve–ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2009							
At 1 January 2009:							
Cost	969,415	91,726	1,260,870	334,437	58,372	26,469	2,741,289
Accumulated depreciation and impairment	(228,810)	(66,418)	(707,348)	(299,305)	(36,150)	(12,472)	(1,350,503)
Net carrying amount	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
At 1 January 2009, net of accumulated depreciation and impairment	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
Additions	18,901	5,180	154,415	33,010	4,319	282,232	498,057
Disposals	(5,920)	(765)	(29,233)	(410)	(3,052)	–	(39,380)
Depreciation provided during the year	(47,608)	(27,254)	(87,690)	(68,276)	(5,337)	–	(236,165)
Impairment	(83)	(5,534)	(477)	(3,736)	–	–	(9,830)
Transfers	166,107	11,031	76,739	31,138	2,542	(287,557)	–
Exchange realignment	876	521	228	(1,717)	(1)	(3)	(96)
At 31 December 2009, net of accumulated depreciation and impairment	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372
At 31 December 2009:							
Cost	1,148,361	103,879	1,400,267	365,366	57,514	21,139	3,096,526
Accumulated depreciation and impairment	(275,483)	(95,392)	(732,763)	(340,225)	(36,821)	(12,470)	(1,493,154)
Net carrying amount	872,878	8,487	667,504	25,141	20,693	8,669	1,603,372

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings are situated in the PRC and elsewhere and held under the following lease terms:

	2010 HK$'000	2009 HK$'000
Freehold	**278,061**	293,528
Short term leases	**116,504**	116,345
Medium term leases	**460,058**	463,005
	854,623	872,878

At 31 December 2010, certain of the Group's buildings with net carrying amounts of approximately HK$83,387,000 (2009: HK$88,386,000) were pledged to secure a loan from TCL Corporation (note 25) while certain of the Group's buildings and plant and machinery with net carrying amounts of approximately HK$251,086,000 (2009: HK$248,507,000) and HK$108,379,000 (2009: HK$116,279,000), respectively, were pledged to secure the bank loans granted to the Group (note 31).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2010 **HK$'000**	2009 HK$'000
Carrying amount at 1 January	**72,328**	50,897
Additions	**36,908**	25,620
Disposals	**(1,965)**	(1,883)
Amortised during the year	**(2,490)**	(2,339)
Exchange realignment	**3,477**	33
Carrying amount at 31 December	**108,258**	72,328
Current portion included in other receivables (note 26)	**(2,051)**	(1,384)
Non-current portion	**106,207**	70,944

15. PREPAID LAND LEASE PAYMENTS (continued)

The Group's leasehold land is situated in the PRC and held under the following lease terms:

	2010	2009
	HK$'000	HK$'000
Short term leases	**18,455**	12,449
Medium term leases	**89,803**	59,879
	108,258	72,328

At 31 December 2010, certain of the Group's prepaid land lease payments with net carrying amounts of approximately HK$12,341,000 (2009: HK$14,264,000) and HK$23,853,000 (2009: HK$24,277,000) were pledged to secure a loan from TCL Corporation (note 25) and the bank loans granted to the Group (note 31), respectively.

16. GOODWILL

	Group	
	2010	2009
	HK$'000	HK$'000
Cost and carrying amount at 1 January and 31 December	**119,638**	119,638

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the PRC television products cash-generating unit for impairment testing.

The recoverable amount of the PRC television products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 10% (2009: 5.51%) and the cash flows beyond the five-year period are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rate used is before tax and reflects specific risks relating to the unit.

17. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation and impairment	**1,178**	**1,314**	**2,492**
Amortisation provided during the year	**(1,192)**	**(387)**	**(1,579)**
Exchange realignment	**14**	**38**	**52**
At 31 December 2010	**–**	**965**	**965**
At 31 December 2010:			
Cost	**31,622**	**59,189**	**90,811**
Accumulated amortisation	**(31,622)**	**(58,224)**	**(89,846)**
Net carrying amount	**–**	**965**	**965**
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation and impairment	15,293	1,695	16,988
Amortisation provided during the year	(3,778)	(383)	(4,161)
Impairment during the year	(10,327)	–	(10,327)
Exchange realignment	(10)	2	(8)
At 31 December 2009	1,178	1,314	2,492
At 31 December 2009:			
Cost	31,049	59,096	90,145
Accumulated amortisation and impairment	(29,871)	(57,782)	(87,653)
Net carrying amount	1,178	1,314	2,492

For the year ended 31 December 2009, an impairment loss of HK$10,327,000 in respect of the Group's patents and licences was recognised because the Group had lost certain major licensees and had no alternative business plan for the use of the relevant intangible assets.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2010 HK$'000	Company 2009 HK$'000
Unlisted shares, at cost	**3,435,297**	3,435,297
Due from subsidiaries	**2,646,471**	1,695,468
Capital contribution in respect of employee share-based compensation	**47,194**	44,073
	6,128,962	5,174,838
Provision for impairment	**(2,883,541)**	(2,015,804)
	3,245,421	3,159,034
Less: Portion of amounts due from subsidiaries classified as current assets	**(2,338,630)**	(1,613,114)
	906,791	1,545,920

The balances with subsidiaries are unsecured and interest-free. These balances have no fixed terms of repayment, except for certain balances due from subsidiaries totalling HK$2,338,630,000 (2009: HK$1,613,114,000) which are repayable on demand.

The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2010	% of equity attributable to the Company 2009	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited**	PRC	RMB88,130,825	**100**	100	Manufacture of audio-visual products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2010	2009	Principal activities
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$15,866,637	**100**	100	Manufacture of audio-visual products
TTE Corporation @	British Virgin Islands/ Hong Kong	US$10,000	**100**	100	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	**100**	100	Manufacture and sale of audio–visual products
TCL (Vietnam) Corporation Limited	Vietnam	VND37,135,000,000	**100**	100	Manufacture and sale of audio–visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	**100**	100	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	**100**	100	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB255,000,000	**100**	100	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	**100**	100	Investment holding
TCL Belgium S.A.	Belgium	EUR61,500	**100**	100	Investment holding

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2010	2009	Principal activities
TCL International Electronics (BVI) Limited @	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TTE (North America) Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR345,582,770	**100**	100	Trading of audio-visual products and components
TCL Information Technology Industrial (Group) Co., Ltd. @	British Virgin Islands/ Hong Kong	US$4,500,000	**100**	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**	PRC	RMB100,880,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB485,863,120	**100**	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2010	2009	Principal activities
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB78,835,125	**70**	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	**100**	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	**100**	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	100	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	**100**	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB76,000,000	**100**	100	Manufacture and sale of audio–visual products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2010	2009	Principal activities
TCL-Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB560,000,000	**100**	100	Trading of audio-visual products and components
TTE Technology Canada Limited	Canada	CAD13,000,000	**100**	100	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$75,954,000	**100**	100	Trading of audio-visual products and components
TCL Overseas Marketing (Macao Commercial Offshore) Limited	Macao	MOP100,000	**100**	100	Trading of audio-visual products and components
TCL Operations Polska S.P. ZO.O.	Poland	PLN126,716,500	**100**	100	Manufacture of audio-visual products
Huizhou TCL King Technology Co., Ltd. ("Huizhou TCL")	PRC	RMB20,000,000	**100**	–	Trading of audio-visual products and components
TCL Technology (HK) Company Limited[@]	Hong Kong	HK$50,000,000	**100**	100	Trading of audio-visual products and components

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

@ Direct subsidiaries of the Company

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures under the PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2010	2009
	HK$'000	HK$'000
Share of net assets	**108,012**	109,772
Classified as held for sale (note)	**(98,744)**	–
	9,268	109,772

Note: Pursuant to the board resolution of Henan TCL-Melody Electronics Co., Ltd. ("Henan TCL-Melody"), a jointly-controlled entity of the Group, on 18 May 2010, it was resolved that Henan TCL-Melody should be dissolved by way of a voluntary liquidation. Completion of the liquidation took place on 21 January 2011. As the liquidation plan was approved before 31 December 2010, the Group's investment in Henan TCL-Melody, with a carrying amount of HK$98,744,000, was classified as non-current assets held for sale and included as current assets in the consolidated statement of financial position as at 31 December 2010.

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 23 and 29 to the financial statements, respectively.

Particulars of the jointly-controlled entities, both of which are indirectly held by the Company, are as follows:

Name	Particulars of issued shares/ registered capital	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
TCL Sun, Inc.	Ordinary shares of PHP100 each	Philippines	50	50	50	Trading of audio-visual products
Henan TCL Melody Electronics Co., Ltd.	Paid-up capital of USD16,550,000	PRC	52	57	52	Manufacture and sale of audio-visual products

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

Share of the jointly-controlled entities' assets and liabilities:

	2010 HK$'000	2009 HK$'000
Current assets	**131,180**	124,317
Non-current assets	**1,981**	13,470
Current liabilities	**(25,149)**	(28,015)
Net assets	**108,012**	109,772

Share of the jointly-controlled entities' results:

	2010 HK$'000	2009 HK$'000
Turnover	**121,303**	166,759
Other revenue	**11,011**	1,554
	132,314	168,313
Total expenses	**(137,497)**	(174,550)
Income tax expense	**(677)**	(270)
Loss after tax	**(5,860)**	(6,507)

20. INVESTMENTS IN ASSOCIATES

	Group	
	2010 HK$'000	2009 HK$'000
Share of net assets	**165,027**	99,183

The Group's trade receivables and payables due from/to the associates are disclosed in notes 23 and 29 to the financial statements, respectively.

20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd. ("TCL Finance")	RMB500,000,000	PRC	14	Provision of financial services
Guangdong Yijiatong Technical Development of Digital Home Co., Ltd. ("Guangdong Yijiatong")	RMB10,000,000	PRC	20	Provision of technical services
Toshiba Visual Products (China) Co., Ltd. ("Toshiba Visual")	RMB50,000,000	PRC	49	Trading of audio-visual products and components
Huizhou Bri-King Optronics Co., Ltd. ("Bri-King")	US$12,000,000	PRC	49	Manufacture and sale of audio-visual products and components

The Group's shareholdings in TCL Finance, Guangdong Yijiatong, Toshiba Visual and Bri-King are held through indirectly wholly-owned subsidiaries of the Company.

Although the Group holds less than 20% of the voting power of TCL Finance, in the opinion of the directors, the Group is in a position to exercise significant influence over TCL Finance through its representation on the board of directors and its participation in policy-making processes of TCL Finance.

TCL Finance, Guangdong Yijiatong, Toshiba Visual and Bri-King have been accounted for using the equity method in these financial statements, and the financial year end of the above associates is coterminous with that of the Group.

20. INVESTMENTS IN ASSOCIATES (continued)

On 6 April 2010, the Group entered into a disposal agreement with TCL Corporation and an independent third party for the disposal of 24% and 6% equity interests, respectively, in Guangzhou Joy Network & Technology Co., Ltd., for a consideration of RMB7,200,000 (equivalent to HK$8,189,000) and RMB1,800,000 (equivalent to HK$2,048,000), respectively, and the Group recognised a gain on disposal of an associate of RMB2,157,000 (equivalent to HK$2,474,000).

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2010	2009
	HK$'000	HK$'000
Assets	**5,726,534**	2,247,937
Liabilities	**4,901,249**	1,583,565
Revenue	**1,248,193**	40,981
Profit	**8,077**	22,055

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	HK$'000	HK$'000
Unlisted equity investments, at cost	**8,359**	2,864
Provision for impairment	**(1,682)**	(1,682)
	6,677	1,182

The Group's available-for-sale investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) these investments do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

22. INVENTORIES

	Group 2010 HK$'000	Group 2009 HK$'000
Raw materials	**1,490,734**	1,625,064
Work in progress	**292,713**	375,083
Finished goods	**3,141,922**	2,917,749
	4,925,369	4,917,896

23. TRADE RECEIVABLES

	Note	Group 2010 HK$'000	Group 2009 HK$'000
Due from third parties		**2,763,117**	4,230,901
Provision for impairment		**(242,455)**	(234,330)
		2,520,662	3,996,571
Due from related parties:			
Companies controlled by TCL Corporation	25	**399,598**	29,827
Associates of TCL Corporation	25	**3,400**	15,608
Jointly-controlled entities	25	**42,541**	36,233
Associates	25	**270,388**	–
		715,927	81,668
		3,236,589	4,078,239

The majority of the Group's sales in the PRC were mainly made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

23. TRADE RECEIVABLES (continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Current to 90 days	**2,958,042**	3,844,734
91 to 180 days	**233,942**	151,073
181 to 365 days	**28,278**	68,688
Over 365 days	**16,327**	13,744
	3,236,589	4,078,239

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
At 1 January	**234,330**	200,819
Impairment losses recognised	**41,478**	30,156
Amount written off as uncollectible	**(38,414)**	(600)
Liquidation of subsidiaries	**–**	(1,978)
Disposal of a subsidiary	**(1,574)**	–
Exchange realignment	**6,635**	5,933
	242,455	234,330

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

23. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Neither past due nor impaired	**2,712,366**	3,377,841
Less than 90 days past due	**437,229**	613,199
90 – 180 days past due	**51,579**	27,697
Over 180 days past due	**35,415**	59,502
	3,236,589	4,078,239

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Certain subsidiaries of the Group have entered into receivables purchase agreements with banks for the factoring of trade receivables with certain designated customers. At 31 December 2010, trade receivables factored to banks aggregated to HK$150,509,000 (2009: HK$1,275,582,000) and of which HK$150,509,000 (2009: HK$1,144,740,000) were derecognised from the consolidated statement of financial position because, in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership in respect of the relevant factored receivables to banks as at 31 December 2010.

24. BILLS RECEIVABLE

At 31 December 2010, the Group discounted bills receivable of HK$80,367,000 to a bank with recourse (the "Discounted Bills"). The Discounted Bills were included in the balance of bills receivable at 31 December 2010 because the derecognition criteria for financial assets were not met. Accordingly, the advances from a bank of approximately HK$79,232,000 received by the Group as consideration for the Discounted Bills at financial year end were recognised as liabilities and included in "interest-bearing bank and other borrowings" (note 31).

25. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/ASSOCIATES OF TCL CORPORATION/T.C.L. INDUSTRIES/ JOINTLY-CONTROLLED ENTITIES/ASSOCIATES

The amounts are unsecured and are repayable within one year except for an amount of HK$88,381,000 (2009: HK$85,198,000) due to TCL Corporation which was secured by certain of the Group's buildings and prepaid land lease payments with net carrying amounts of approximately HK$83,387,000 and HK$12,341,000, respectively (2009: HK$88,386,000 and HK$14,264,000, respectively). The amounts are interest-free, except for the amounts of HK$501,678,000 and HK$88,381,000 due to TCL Corporation which bear interest at fixed rates of 5.87% to 6.05% per annum and 5.31% per annum, respectively (2009: amounts of HK$44,259,000 and HK$85,198,000 due to TCL Corporation which bore interest at fixed rates of 5.97% per annum and 5.31% per annum, respectively).

26. OTHER RECEIVABLES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments and deposits		**333,328**	135,019	**2,543**	655
Other receivables		**1,049,759**	582,136	**42,617**	41,620
Prepaid land lease payments	15	**2,051**	1,384	**–**	–
Prepaid royalty		**26,079**	63,529	**–**	–
Derivative financial instruments	(a)	**67,317**	6,530	**–**	–
Due from companies controlled by TCL Corporation	25	**41,332**	3,013	**6**	–
Due from associates of TCL Corporation	25	**17,456**	41,019	**–**	–
		1,537,322	832,630	**45,166**	42,275

Note:

(a) The Group has entered into various forward exchange contracts and interest rate swaps to manage its exchange rate exposures and interest rate exposures, respectively, which did not meet the criteria for hedge accounting. A net loss of HK$16,508,000 (2009: HK$7,323,000) as a result of changes in the fair value of these non-hedging derivative financial contracts was charged to the profit or loss of the consolidated statement of comprehensive income during the year.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2010, certain time deposits of the Group of HK$2,374,328,000 (2009: HK$86,725,000) were pledged as securities for the Group's bank loans (note 31).

Included in the Group's cash and bank balances are deposits of HK$743,756,000 (2009: HK$695,680,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rates for these deposits were ranging from 0.36% to 1.17% (2009: 0.36%) per annum, being the savings rates offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 41 to the financial statements.

28. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

		Group	
		2010	2009
	Notes	**HK$'000**	HK$'000
An available-for-sale investment	(a)	**65,215**	65,215
Property, plant and equipment	(b)	**15,137**	–
Investment in a jointly-controlled entity	19	**98,744**	–
		179,096	65,215

Notes:

(a) The balance represents the Group's 25% equity interest (the "Pledged Interest") in TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi") which was pledged in favour of Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd. ("Tianjin Vantone"), an associate of TCL Corporation, as a security for a loan of HK$65,319,000 (the "Trust Loan") advanced to the Group as at 31 December 2009.

On 27 October 2010, the Trust Loan was fully repaid by the Group and the legal charge over the Pledged Interest was released on 14 December 2010. The Group and Tianjin Vantone further entered into a transfer agreement on 12 December 2010 and pursuant to which, the Group will transfer the Pledged Interest to Tianjin Vantone at a consideration of RMB57,500,000 (equivalent to approximately HK$67,759,000) (the "Share Transfer"). As the completion of the Share Transfer was subject to certain legal procedures as at 31 December 2010, the Pledged Interest was classified as non-current assets held for sale and included as current asset in the consolidated statement of financial position as at 31 December 2010.

28. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (continued)

(b) On 30 November 2010, TCL-Thomson Electronics (Thailand) Co., Ltd., a wholly-owned subsidiary of the Group, entered into a sale and purchase agreement (the "S&P Agreement") with an independent third party for the disposal of certain items of property, plant and equipment (the "Disposal Assets") at an aggregate consideration of US$8,300,000 (equivalent to approximately HK$64,600,000).

Pursuant to the S&P Agreement, the disposal will be completed after the completion of the necessary legal procedures in respect of the change in ownership of the Disposal Assets.

As at 31 December 2010, the Disposal Assets with an aggregate carrying amount of HK$15,137,000, which will be transferred to the independent third party upon the completion of the S&P Agreement, were classified as non-current assets held for sale and included as current assets in the consolidated statement of financial position as at 31 December 2010.

29. TRADE PAYABLES

		Group	
		2010	2009
	Notes	**HK$'000**	HK$'000
Due to third parties		**3,606,434**	4,867,728
Due to related parties:			
Companies controlled by TCL Corporation	25	**1,017,110**	850,878
Associates of TCL Corporation	25	**5,297**	124,804
Jointly-controlled entities	25	**130,204**	179,293
Associates	25	**530,881**	–
		1,683,492	1,154,975
		5,289,926	6,022,703

29. TRADE PAYABLES (continued)

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

	Group	
	2010	2009
	HK$'000	HK$'000
Current to 90 days	**5,153,743**	5,901,881
91 to 180 days	**84,745**	48,316
181 to 365 days	**7,748**	13,466
Over 365 days	**43,690**	59,040
	5,289,926	6,022,703

The trade payables are non-interest-bearing and are normally settled with credit periods ranging from 30 to 120 days.

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables	(a)	**1,373,353**	1,097,123	**5,263**	10,739
Accruals		**328,559**	294,667	**33**	32
Receipts in advance		**592,161**	379,067	**130**	–
Derivative financial instruments	26 (a)	**77,193**	2,149	**–**	–
Due to T.C.L. Industries	(b)	**–**	10,521	**–**	–
Due to associates of TCL Corporation	25	**–**	953	**–**	953
		2,371,266	1,784,480	**5,426**	11,724

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amount due to T.C.L. Industries is unsecured, interest-free and repayable on demand.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010			2009		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	1.80 to 2.56/ PBOC base flat rate/LIBOR + (0.75 to 0.80)	2011	2,387,130	1.15/ PBOC base flat rate	2010	172,353
Bank loans – unsecured	LIBOR + 1.70	On demand	615,181	–	–	–
Bank loans – unsecured	1.50 to 3.51/ HIBOR + 1.00/ LIBOR + 2.20	2011	1,104,234	0.85 to 5.31/ LIBOR+ (0.45 to1.20)	2010	1,182,479
Advances from banks as consideration for Discounted Bills – secured	1.61	2011	79,232	–	–	–
Trust receipt loans – unsecured	LIBOR + (0.85 to 1.25)	2011	519,299	LIBOR + (0.85 to 1.10)	2010	99,888
Loans from an associate – unsecured	4.83 to 6.39	2011	158,441	1.99 to 4.86	2010	241,009
Loan from an associate of TCL Corporation – secured	–	–	–	PBOC base flat rate	2010	65,319
			4,863,517			1,761,048
Non-current						
Bank loans – secured	PBOC base flat rate	2012 – 2014	265,143	PBOC base flat rate	2011-2014	369,192
			5,128,660			2,130,240

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

As at 31 December 2010, the interest-bearing bank borrowings of the Company represent the unsecured long term bank loans repayable on demand of HK$615,181,000 which bear interest at LIBOR plus 1.70% per annum.

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**4,705,076**	1,454,720	**615,181**	–
In the second year	**117,842**	113,598	**–**	–
In the third to fifth years, inclusive	**147,301**	255,594	**–**	–
	4,970,219	1,823,912	**615,181**	–
Loans from an associate repayable:				
Within one year	**158,441**	241,009	**–**	–
Loan from an associate of				
TCL Corporation repayable:				
Within one year	**–**	65,319	**–**	–
	5,128,660	2,130,240	**615,181**	–

Notes:

(a) As at 31 December 2010, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) Certain of the Group's bank loans are secured by:

(i) pledge of the Group's prepaid land lease payments, buildings and plant and machinery situated in the PRC, which had aggregate carrying amounts at the end of the reporting period of approximately HK$23,853,000 (2009: HK$24,277,000), HK$251,086,000 (2009: HK$248,507,000) and HK$108,379,000 (2009: HK$116,279,000), respectively.

(ii) pledge of certain of the Group's time deposits amounting to HK$2,374,328,000 (2009: HK$86,725,000).

(c) As at 31 December 2009, the loan due to the associate of TCL Corporation was secured by the Pledged Interest (note 28(a)).

(d) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$1,333,364,000 (2009: HK$1,702,188,000) as at the end of the reporting period.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Breach of loan covenants

As at 31 December 2010, in respect of the bank loans with an aggregate carrying amount of HK$615,181,000 (the "Syndicated Loans"), the Group breached certain of the financial covenants of the relevant loan agreement which are primarily related to the value of the Group's consolidated tangible net worth and the Group's interest coverage ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced negotiation with the relevant banks for a waiver to demand immediate repayment of the outstanding Syndicated Loans as a result of the breach. However, no conclusion was reached as at 31 December 2010.

Since the lenders have not agreed to waive their rights to demand immediate payment as at the end of reporting period, the Syndicated Loans have been classified as current liabilities in the consolidated statement of financial position as at 31 December 2010.

Subsequent to the end of the reporting period, on 23 February 2011, the Group successfully obtained the necessary consent from the majority of the lenders for the Group's waiver request.

Included in bank loans are the following amounts denominated in currencies other than the functional currencies of the entities to which they relate:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollar	**4,197,699**	1,055,172	**615,181**	–
Hong Kong dollar	**194,454**	127,755	**–**	–

32. PROVISIONS

	Group				Company
	Restructuring costs	**Warranties**	**Litigation**	**Total**	**Litigation**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	885	220,911	–	221,796	–
Additional provision	77,567	132,364	103,554	313,485	103,554
Amount utilised during the year	(46,220)	(90,705)	–	(136,925)	–
Reversal of unutilised amounts	(5,541)	(36,532)	–	(42,073)	–
Disposal of a subsidiary	–	(483)	–	(483)	–
Exchange realignment	7	11,477	–	11,484	–
At 31 December 2010	26,698	237,032	103,554	367,284	103,554

32. PROVISIONS (continued)

Restructuring costs

Restructuring plans were drawn up in current year for certain reorganisation and rationalisation of the Group's business in order to optimise its industrial base and hence profitability. The restructuring costs were mainly related to the redundancy costs incurred for a streamlined business model.

Warranties

The Group provides warranties ranging from three months to three years to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Litigation

As further discussed in note 38(b) to the financial statements, the Group was involved in a number of legal proceedings arising from the wind down and insolvency of the Group's business in Europe in prior years.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Note	**Depreciation allowance in excess of related depreciation** HK$'000
At 1 January 2009		11,572
Deferred tax charged to profit or loss of the consolidated statement of comprehensive income during the year	10	239
Exchange realignment		7
Gross deferred tax liabilities at 31 December 2009 and 1 January 2010		11,818
Deferred tax charged to profit or loss of the consolidated statement of comprehensive income during the year	10	1,133
Exchange realignment		43
Gross deferred tax liabilities at 31 December 2010		12,994

33. DEFERRED TAX (continued)

The movements in deferred tax liabilities and assets during the year are as follows: (continued)

Deferred tax assets

Group

	Note	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2009		14,000	426	2,787	17,213
Deferred tax credited/(charged) to profit or loss of the consolidated statement of comprehensive income during the year	10	3,000	–	(711)	2,289
Exchange realignment		–	–	2	2
Gross deferred tax assets at 31 December 2009 and 1 January 2010		17,000	426	2,078	19,504
Deferred tax credited to profit or loss of the consolidated statement of comprehensive income during the year	10	1,000	–	4,050	5,050
Exchange realignment		–	16	1,166	1,182
Gross deferred tax assets at 31 December 2010		18,000	442	7,294	25,736

The Group has tax losses of HK$3,562,001,000 (2009: HK$2,428,081,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in the PRC in respect of earnings generated from 1 January 2008.

33. DEFERRED TAX (continued)

Deferred tax assets (continued)

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and a jointly-controlled entity established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries and a jointly-controlled entity will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and a jointly-controlled entity in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$1,978,792,000 at 31 December 2010 (2009: HK$1,366,352,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefit plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in profit or loss of the consolidated statement of comprehensive income and the amounts recognised in the consolidated statement of financial position for the plans.

	2010 **HK$'000**	2009 HK$'000
Net benefit expense		
Current service cost	**130**	2,179
Interest cost on benefit obligation	**19**	160
Net cumulative actuarial loss recognised in profit or loss of the consolidated statement of comprehensive income	**–**	85
Net benefit expense	**149**	2,424

34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

	2010 HK$'000	2009 HK$'000
Benefit liabilities		
Benefit obligation	**6,798**	21,940
Unrecognised net actuarial losses	**–**	1,582
Benefit liabilities	**6,798**	23,522

Movements in the benefit liabilities during the year are as follows:

	2010 HK$'000	2009 HK$'000
At 1 January	**23,522**	23,361
Benefit expense (note 7)	**149**	2,424
Contributions	**(82)**	(774)
Curtailment	**(16,518)**	(2,177)
Exchange realignment	**(273)**	688
At 31 December	**6,798**	23,522

The principal assumptions used in determining the pensions and post-employment benefit obligations under the Group's major plans are shown below:

	2010 %	2009 %
Discount rate	**4.7 – 8.5**	4.7 – 7.4
Future salary increase rate	**2.5 – 10.0**	2.0 – 10.0
Healthcare cost increase rate	**5.0 – 9.5**	5.0 – 9.5

35. SHARE CAPITAL

Shares

	Company 2010 HK$'000	Company 2009 HK$'000
Authorised:		
2,200,000,000 (2009: 2,200,000,000) shares of HK$1.00 each (2009: HK$1.00 each)	**2,200,000**	2,200,000
Issued and fully paid:		
1,086,424,827 (2009: 1,011,840,056) shares of HK$1.00 each (2009: HK$1.00 each)	**1,086,425**	1,011,840

During the year, the movements in share capital and share premium account were as follows:

(a) The subscription rights attaching to 1,138,083 share options and 1,446,688 share options were exercised at the subscription prices of HK$2.45 and HK$6.30 per share, respectively, resulting in the issue of 2,584,771 shares of HK$1.00 each for a total cash consideration of HK$11,903,000 (before expenses). An amount of HK$4,202,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(b) On 22 March 2010, the Company, T.C.L. Industries and certain placing agents entered into a placing and subscription agreement (the "Shares Agreement") and pursuant to which, T.C.L. Industries placed 72 million existing shares of the Company through the placing agents at a price of HK$7.43 each (the "Placing") and subscribed for 72 million new shares of the Company at the same price of HK$7.43 each (the "Subscription"). Completion of the Placing and the Subscription took place on 25 March 2010 and 1 April 2010, respectively, and the Company raised a total of HK$534,960,000 (before expenses).

35. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2009		10,218,266,345	1,021,827	2,885,594	3,907,421
Adjustment arising from the share consolidation		(9,196,439,711)	–	–	–
Shares repurchased		(19,494,000)	(19,494)	(36,112)	(55,606)
Issue of shares upon exercise of share options		9,507,422	9,507	49,324	58,831
Proposed final 2009 dividend		–	–	(121,421)	(121,421)
At 31 December 2009 and 1 January 2010		1,011,840,056	1,011,840	2,777,385	3,789,225
Issue of shares upon exercise of share options	(a)	2,584,771	2,585	13,520	16,105
Placement of new shares	(b)	72,000,000	72,000	462,960	534,960
		74,584,771	74,585	476,480	551,065
Share issue expenses		–	–	(12,240)	(12,240)
Dividend paid		–	–	(7,939)	(7,939)
At 31 December 2010		1,086,424,827	1,086,425	3,233,686	4,320,111

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, advisers, consultants, agents, contractors, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, any non-controlling shareholder in the Company's subsidiaries and any other person whom the Board at its sole discretion considers may contribute or have contributed to the Group. The Scheme became effective on 15 February 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

35. SHARE CAPITAL (continued)

Share options (continued)

The purpose of the Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Pursuant to the Scheme and subject to shareholders' approval, the maximum number of shares in respect of which options may be granted under the Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than ten years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

35. SHARE CAPITAL (continued)

Share options (continued)

The following share options were outstanding under the Scheme during the year:

	2010		2009	
	Weighted average exercise price per share HK$	Number of options '000	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**4.193**	**26,682**	0.450	417,619
Adjustment arising from the share consolidation	**–**	**–**	4.501	(373,091)
Granted during the year	**3.600**	**3,403**	–	–
Lapsed during the year	**2.772**	**(2,136)**	5.554	(8,339)
Exercised during the year	**4.605**	**(2,585)**	4.572	(9,507)
At 31 December	**4.191**	**25,364**	4.193	26,682

The weighted average share price at the date of exercise for share options exercised during the year was HK$7.443 (2009: HK$7.023).

35. SHARE CAPITAL (continued)

Share options (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
10,527	**6.30#**	**Note 1**
11,690	**2.45#**	**Note 2**
3,147	**3.60**	**Note 3**
25,364		

2009

Number of options '000	Exercise price*# HK$ per share	Exercise period
12,076	6.30	Note 1
14,606	2.45	Note 2
26,682		

* The exercise price of the share options is subject to adjustment in case of rights on bonus issues, or other similar changes in the Company's share capital.

\# Exercise prices per share in respect of the outstanding share options were adjusted from HK$0.630 to HK$6.30 and HK$0.245 to HK$2.45, respectively, upon the share consolidation became effective on 23 January 2009.

Note 1: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 2: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

Note 3: 50% of such share options is exercisable after the expiry of 6 months from the date of grant, and the remaining 50% is exercisable after the expiry of 18 months from the date of grant, up to 7 November 2015.

35. SHARE CAPITAL (continued)

Share options (continued)

The fair value of the share options granted during the year was HK$4,791,000 (approximately HK$1.408 each). The fair value of equity-settled share options granted in current year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2010.

	2010
Dividend yield (%)	0.64 per annum
Expected volatility (%)	66.96 per annum
Risk-free interest rate (%)	1.282 per annum
Expected life of options (year)	4.966

The expected life of the options is based on the historical data over the past five years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The 2,584,771 share options exercised during the year resulted in the issue of 2,584,771 ordinary shares of the Company and new share capital of HK$2,585,000 and share premium of HK$13,520,000.

At the end of the reporting period, the Company had 25,364,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 25,364,000 additional ordinary shares of the Company and additional share capital of HK$25,364,000 and share premium of HK$80,926,000.

Restricted share award scheme

On 6 February 2008 (the "Adoption Date"), the Board approved a restricted share award scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of Awarded Shares awarded to the Selected Employees under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they are vested in accordance with the rules of the Award Scheme.

35. SHARE CAPITAL (continued)

Restricted share award scheme (continued)

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

On 21 April 2008, the shareholders had further approved the Board to implement the Award Scheme to its full extent (i.e., to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of the Selected Employees under the Award Scheme.

The following Awarded Shares were outstanding under the Award Scheme during the year:

	2010 Number of Awarded Shares '000	2009 Number of Awarded Shares '000
At 1 January	**7,959**	35,816
Adjustment arising from the share consolidation	**–**	(32,234)
Purchased during the year (note a)	**–**	9,224
Awarded and vested (note b)	**(55)**	(4,847)
At 31 December	**7,904**	7,959

Notes:

(a) No Awarded Shares have been purchased by the Trustee for the year ended 31 December 2010. For the year ended 31 December 2009, the Trustee purchased 9,224,000 Awarded Shares at a total cost (including related transaction costs) of HK$19,201,000.

(b) During the year, 55,312 Awarded Shares (2009: 4,847,023) were granted to certain Selected Employees as settlement of their performance bonuses for the year ended 31 December 2009. The fair value of the Awarded Shares on the date of grant was HK$2.21 (2009: HK$2.744) per share.

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 72 to 73 of the financial statements.

(i) *Share option reserve*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

(ii) *Capital reserve*

The Group's capital reserve originally represented the excess of the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of a subsidiary in prior years remains eliminated against the capital reserve is explained in note 16 to the financial statements.

(iii) *Reserve funds*

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries in the PRC has been transferred to the reserve funds which are restricted to use.

(iv) *Awarded share reserve*

The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

36. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Share option reserve[Δ] HK$'000	Capital reserve[#] HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000	Awarded share reserve* HK$'000	Total HK$'000
At 1 January 2009	2,885,594	41,022	738,936	(1,678,518)	(7,808)	–	1,979,226
Total comprehensive income for the year	–	–	–	189,838	–	–	189,838
Shares repurchased	(36,112)	–	–	–	–	–	(36,112)
Equity-settled share option arrangements	–	15,146	–	–	–	–	15,146
Issue of shares upon exercise of share options	49,324	(15,362)	–	–	–	–	33,962
Share options lapsed during the year	–	(8,494)	–	8,494	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	(19,201)	–	(19,201)
Vesting of shares under the Award Scheme	–	–	–	–	9,859	3,439	13,298
Proposed final 2009 dividend	(121,421)	–	–	–	–	–	(121,421)
At 31 December 2009 and 1 January 2010	2,777,385	32,312	738,936	(1,480,186)	(17,150)	3,439	2,054,736
Total comprehensive loss for the year	–	–	–	(1,035,105)	–	–	(1,035,105)
Equity-settled share option arrangements	–	5,840	–	–	–	–	5,840
Issue of shares upon exercise of share options	13,520	(4,202)	–	–	–	–	9,318
Placement of new shares	462,960	–	–	–	–	–	462,960
Share issue expenses	(12,240)	–	–	–	–	–	(12,240)
Share options lapsed during the year	–	(1,235)	–	1,235	–	–	–
Vesting of shares under the Award Scheme	–	–	–	–	119	3	122
Dividend paid	(7,939)	–	–	–	–	–	(7,939)
At 31 December 2010	3,233,686	32,715	738,936	(2,514,056)	(17,031)	3,442	1,477,692

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

\# The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

* The awarded share reserve represents the excess of the fair value of the Awarded Shares over the total cost (including related transaction costs) of the Awarded Shares awarded and vested to the Selected Employees at the date of award.

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of subsidiaries

Year ended 31 December 2010

On 28 June 2010, the Group entered into a disposal agreement with an independent third party to dispose of its entire interest in Shenzhen Qian Qiao Investment Co., Ltd. ("Qian Qiao"), a wholly-owned subsidiary of the Group, for a cash consideration of RMB103,000,000 (equivalent to HK$117,727,000).

On 10 December 2010, the Group entered into another disposal agreement with T.C.L. Industries to dispose of its entire interest in TCL Digital Technology (Shenzhen) Co., Ltd. ("Shenzhen Digital"), a wholly-owned subsidiary of the Group, for a consideration of RMB41,500,000 (equivalent to HK$48,268,000).

The disposal agreements of Qian Qiao and Shenzhen Digital (collectively the "Disposal Agreements") were completed in August 2010 and December 2010, respectively, and details of the aggregate net assets disposed of under the Disposal Agreements and their financial impacts are summarised below.

	2010 HK$'000
Net assets disposed of:	
Property, plant and equipment	**14,652**
Inventories	**13,148**
Cash and bank balances	**20,284**
Trade receivables	**191**
Other receivables	**31,035**
Trade payables	**(9,148)**
Other payables and accruals	**(3,109)**
Provisions	**(483)**
	66,570
Release of exchange fluctuation reserve upon disposal	**(8,905)**
Gain on disposal of subsidiaries (note 7)	**108,330**
	165,995
Satisfied by:	
Other payables	**10,122**
Loan from T.C.L Industries.	**38,146**
Cash	**117,727**
	165,995

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Disposal of subsidiaries (continued)

Year ended 31 December 2010 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2010
	HK$'000
Cash consideration	**117,727**
Cash and bank balances disposed of	**(20,284)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**97,443**

Year ended 31 December 2009

The disposal of TCL Wuxi was completed in June 2009 and details of the net assets disposed of under the Disposal Agreement with TCL Wuxi and their financial impacts are summarised below.

	2009
	HK$'000
Net assets disposed of:	
Cash and bank balances	30
Non-current assets classified as held for sale	217,214
Other payables	(18,701)
Non-controlling interests	(59,563)
	138,980
Release of exchange fluctuation reserve upon disposal	(22,397)
The Pledged Interest classified as held for sale (note 28)	(65,215)
Gain on disposal of a subsidiary (note 7)	45,333
	96,701
Satisfied by:	
Other receivables	9,073
Cash	87,628
	96,701

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Disposal of subsidiaries (continued)

Year ended 31 December 2009 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2009 HK$'000
Cash consideration	87,628
Cash and bank balances disposed of	(30)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	87,598

(b) Liquidation of subsidiaries

Year ended 31 December 2010

Century Business Ltd. and TTE Mexico, S.A. de. C.V., wholly-owned subsidiaries of the Group, had been dormant for a number of years and were wound-up voluntarily in February 2010 and December 2010, respectively.

	2010 **HK$'000**
Release of exchange fluctuation reserve upon liquidation	**(1,168)**
Gain on liquidation of subsidiaries (note 7)	**1,168**
	–
Net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries	**–**

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Liquidation of subsidiaries (continued)

Year ended 31 December 2009

TCL Hungary Electronics Limited Liability Company ("TCL Hungary") and Center Profi (formerly known as TCL Russia LLC), both are wholly-owned subsidiaries of the Group, had been dormant for a number of years and were wound up voluntarily in February 2009 and November 2009, respectively.

	2009 HK$'000
Net liabilities of TCL Hungary and Center Profi:	
Other receivables	2,075
Cash and bank balances	19
Trade payables	(11,980)
Other payables and accruals	(15,858)
	(25,744)
Release of exchange fluctuation reserve upon liquidation	5,354
Gain on liquidation of subsidiaries (note 7)	20,390
	–
Net outflow of cash and cash equivalents in respect of the liquidation of subsidiaries	(19)

38. CONTINGENT LIABILITIES

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

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**6,119,992**	4,082,717
Guarantees given to suppliers in connection with the payment of purchases by subsidiaries	**–**	–	**676,361**	671,163
	–	–	**6,796,353**	4,753,880

As at 31 December 2010, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$2,361 million (2009: HK$1,585 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were not utilised (2009: were not utilised).

In addition, the Company provided guarantees to banks in connection with foreign exchange contracts entered into by certain subsidiaries of the Group. As at 31 December 2010, the aggregate notional amount of unsettled foreign exchange contracts and interest rate swaps amounted to approximately HK$3,333 million (2009: HK$1,021 million) and HK$1,009 million (2009: Nil), respectively.

(b) At the end of the reporting period, the Group has the following pending litigations:

(i) In December 2007, the Group received a summons to appear in a court hearing in France on claims (the "Labour Claims") made by a group of former employees of TTE Europe SAS ("TTE Europe"), the Group's then operating entity for its European business in 2006, against the Company, TTE Europe and TCL Belgium S.A., an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro 27,000,000 (equivalent to approximately HK$279,600,000). The latest hearing took place on 1 July 2010 but no judgement was made. The case was pleaded on 7 January 2011 and the final judgement is expected to be announced by the relevant French court on 4 May 2011. As advised by the Group's legal counsels, the Group might only be ordered to pay approximately Euro 9,000,000 (equivalent to approximately HK$93,200,000 in case the Group is held liable for these Labour Claims.

38. CONTINGENT LIABILITIES (continued)

(b) At the end of the reporting period, the Group has the following pending litigations: (continued)

(ii) On 8 November 2010, the Group received a writ of summons (the "First Writ") issued by the official liquidator of TTE Europe in the Commercial Court of Nanterre in France against TCL Corporation, the Company and certain of the Group's subsidiaries, claiming, among other things:

- the payment of Euro 20,700,000 (equivalent to approximately HK$214,400,000) in respect of an alleged misappropriation or transfer of customers of TTE Europe;

- the payment of Euro 17,688,000 (equivalent to approximately HK$183,200,000) in respect of an alleged TTE Europe's unjustified assumption of the cost of the employment preservation plan; and

- interest and costs.

The first hearing of the First Writ took place on 11 January 2011 and the judgement was originally scheduled to be announced on 10 February 2011. However, the announcement of the judgement was postponed by the French court to 10 March 2011 pending further negotiations between the parties involved.

Further, on 8 November 2010, the Group received another writ of summons (the "Second Writ") issued by the official liquidator of TTE Europe in the Commercial Court of Nanterre in France against TTE Corporation, a wholly-owned subsidiary of the Company, claiming, among other things:

- the payment of Euro 34,000,000 (equivalent to approximately HK$352,100,000) in respect of an alleged inappropriate transfer of shares of TTE Technology Inc., an indirect wholly-owned subsidiary of the Group, by TTE Corporation; and

- interest and costs.

The first hearing of the Second Writ originally scheduled on 23 November 2010 is postponed by the French court to 31 March 2011.

38. CONTINGENT LIABILITIES (continued)

(b) At the end of the reporting period, the Group has the following pending litigations: (continued)

(ii) (continued)

The Group is currently in negotiation of a settlement with the former employees of TTE Europe for the Labour Claims and the official liquidator for the First and Second Writs. The Group recognised a provision of Euro 10,000,000 (equivalent to approximately HK$103,600,000), for the settlement of all the above alleged claims and charged to the profit or loss of the consolidated statement of comprehensive income for the year ended 31 December 2010.

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its office properties and factories under operating lease arrangements with leases negotiated for terms of one year.

At 31 December 2010, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK$5,000 (2009: HK$3,809,000).

(b) As lessee

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from one to ten years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Within one year	**45,226**	35,647
In the second to fifth years, inclusive	**36,340**	51,527
After five years	**5,296**	–
	86,862	87,174

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	HK$'000
Contracted, but not provided for	**119**	89,172
Authorised, but not contracted for	**4,800**	275,631
	4,919	364,803

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		2010	2009
	Notes	**HK$'000**	HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**71,434**	186,709
Sales of finished goods	(ii)	**118,620**	87,979
Purchases of finished goods	(iii)	**83,192**	223,673
TCL Corporation:			
Interest expense	(iv)	**45,478**	13,884
Other finance service fee	(ix)	**8,697**	7,714
Transfer of land use rights	(xi)	**683**	–
T.C.L. Industries:			
Interest expense	(v)	**–**	640
Associates:			
Interest income	(vii)	**3,440**	3,459
Interest expense	(viii)	**9,382**	10,195
Other finance service fee	(ix)	**443**	392
Sales of finished goods	(ii)	**257,438**	–
Purchases of finished goods	(iii)	**448,681**	–

41. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2010 HK$'000	2009 HK$'000
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	**196,146**	24,031
Sales of finished goods	(ii)	**89,712**	26,985
Purchases of raw materials	(iii)	**1,507,607**	1,912,560
Purchases of finished goods	(iii)	**110,755**	21,766
Subcontracting fee expense	(x)	**13,338**	11,659
Rental, maintenance fees and facilities usage fees	(xii)	**2,656**	2,223
Rental expense	(xiii)	**37,777**	37,583
Reimbursement of brand advertising costs	(xiv)	**165,451**	82,057
Logistics service fee expense	(xv)	**52,183**	39,909
Call centre service fee expense	(xvi)	**17,587**	18,103
Sales of mobile phones	(xvii)	**–**	3,975
Purchases of mobile phones materials	(xviii)	**–**	66
Recharge of expenses	(xx)	**4,278**	–
Transfer of land use rights	(xi)	**4,677**	–
Associates of TCL Corporation:			
Purchases of finished goods	(iii)	**581,584**	1,865,279
Sales of finished goods	(ii)	**31,626**	111,179
Rental expense	(xiii)	**987**	1,653
Interest expense	(xix)	**–**	1,630
Service fee expenses	(xxi)	**4,502**	–
Research and development income	(vi)	**1,149**	–

Notes:

(i) The sales of raw materials were made at a gross margin of 0 – 3% (2009: 0 – 3%).

(ii) The sales of finished goods were made by reference to the prevailing market prices for comparable transactions.

(iii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iv) The interest was charged at rates ranging from 5.31% to 6.05% per annum (2009: 5.31% to 5.97% per annum).

(v) For the year ended 31 December 2009, the interest was charged at a rate of 3.08% per annum, being the 6-month LIBOR on the inception date of the advances.

41. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes: (continued)

(vi) Research and development income were charged with reference to the fee charged by relevant similar service providers.

(vii) The interest was charged at rates ranging from 0.36% to 1.17% (2009: 0.36%) per annum, being the savings rates offered by the People's Bank of China.

(viii) The interest was charged at rates ranging from 4.83% to 6.39% per annum (2009: 1.99% to 4.86% per annum).

(ix) The other finance service fee was determined with reference to the rates of other similar services for comparable transactions.

(x) The subcontracting fee was determined with reference to subcontracting fees charged by third party companies offering similar services.

(xi) The considerations of transfer of land use rights were arrived at after arm's length negotiations between the parties thereto and on normal commercial terms and with reference to the book value of the land use rights.

(xii) The rental, maintenance fees and facilities usage fees were determined with reference to the rates of other similar premises for comparable transactions.

(xiii) Rental expense was charged at rates ranging from RMB9.5 to RMB52.5 per square metre (2009: from RMB8.4 to RMB52.5).

(xiv) The brand advertising costs represent advertising costs incurred by TCL Corporation and were reimbursed by the Group at cost and at a minimum of 0.5% (2009: 0.5%) of the aggregate net sales of TV products using TCL A brand as defined in the TCL Trademark License Agreement.

(xv) The logistics service fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The call centre service fee was calculated based on the actual cost structure in connection with the provision of the call centre service.

(xvii) For the year ended 31 December 2009, the sales of mobile phones were made based on the cost of materials plus a value added rate with reference to other similar services for comparable transactions.

(xviii) For the year ended 31 December 2009, the purchases of mobile phones materials were made at cost.

(xix) For the year ended 31 December 2009, the interest was charged at PBOC base flat rate.

(xx) The income recharged for electricity and water paid with reference to the rates charged by relevant service providers.

(xxi) The service fee expenses were charged at rate of RMB20 for each internet television and the content income was based on normal commercial terms after arm's length negotiation between the parties.

41. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

Acquisition of land and building

On 31 December 2010, Shenzhen TCL New Technology Company Limited, an indirect subsidiary of the Company, entered into a transfer agreement with TCL Optoelectronics Tech (Shenzhen) Company Limited, a non-wholly-owned subsidiary of TCL Corporation, to acquire the land and building in Shenzhen of the PRC for a consideration of RMB21,954,134 (equivalent to approximately HK$25,226,000) which was arrived at after arm's length negotiations between parties thereto and on normal commercial terms for the purpose of providing accommodation and ancillary facilities to the Group's staff and their family members. Further details of this transaction were set out in the Company's announcement dated 31 December 2010.

(c) Details of compensation of key management personnel of the Group are set out in notes 8 and 9 to the financial statements.

Except for the transactions with jointly-controlled entities of the Group and associates of TCL Corporation included in note 41(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, factorings, other interest-bearing borrowings, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings). There is no material impact on other components of the Group's equity.

	Group	
	Increase/ (decrease) in basis points	**Decrease/ (increase) in loss before tax** HK$'000
2010		
Hong Kong dollar	**(25)**	**64**
United States dollar	**(25)**	**8,951**
Renminbi	**(25)**	**3,451**
Hong Kong dollar	**25**	**(64)**
United States dollar	**25**	**(8,951)**
Renminbi	**25**	**(3,451)**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2009		
Hong Kong dollar	(25)	163
United States dollar	(25)	303
Renminbi	(25)	3,347
Hong Kong dollar	25	(163)
United States dollar	25	(303)
Renminbi	25	(3,347)

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain bank loans were denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurs, so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates	**Decrease/ (increase) in loss before tax**
	%	HK$'000
2010		
If Hong Kong dollar weakens against United States dollar	**5**	**(148,839)**
If Renminbi weakens against United States dollar	**5**	**(118,961)**
If Macau Pataca weakens against United States dollar	**5**	**5,366**
If Macau Pataca weakens against Euro	**5**	**3,634**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**148,839**
If Renminbi strengthens against United States dollar	**(5)**	**118,961**
If Macau Pataca strengthens against United States dollar	**(5)**	**(5,366)**
If Macau Pataca strengthens against Euro	**(5)**	**(3,634)**

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in profit before tax HK$'000
2009		
If Hong Kong dollar weakens against United States dollar	5	(39,614)
If Renminbi weakens against United States dollar	5	(119,941)
If Macau Pataca weakens against United States dollar	5	4,385
If Macau Pataca weakens against Euro	5	4,758
If Hong Kong dollar strengthens against United States dollar	(5)	39,614
If Renminbi strengthens against United States dollar	(5)	119,941
If Macau Pataca strengthens against United States dollar	(5)	(4,385)
If Macau Pataca strengthens against Euro	(5)	(4,758)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 23 and 26, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2010			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	**4,944,112**	**128,753**	**170,482**	**5,243,347**
Trade payables	**5,289,926**	**–**	**–**	**5,289,926**
Bills payable	**1,310,418**	**–**	**–**	**1,310,418**
Other payables (note 30)	**1,373,353**	**–**	**–**	**1,373,353**
Derivative financial instruments (note 30)	**77,193**	**–**	**–**	**77,193**
Due to TCL Corporation	**621,767**	**–**	**–**	**621,767**
	13,616,769	**128,753**	**170,482**	**13,916,004**

	2009			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	1,779,772	124,226	303,801	2,207,799
Trade payables	6,022,703	–	–	6,022,703
Bills payable	683,076	–	–	683,076
Other payables (note 30)	1,097,123	–	–	1,097,123
Derivative financial instruments (note 30)	2,149	–	–	2,149
Due to TCL Corporation	133,606	–	–	133,606
Due to T.C.L. Industries	48,667	–	–	48,667
Due to associates of TCL Corporation (note 30)	953	–	–	953
	9,768,049	124,226	303,801	10,196,076

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2010			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank borrowings	**656,908**	**–**	**–**	**656,908**
Other payables (note 30)	**5,263**	**–**	**–**	**5,263**
	662,171	**–**	**–**	**662,171**
The maximum amount of the guarantee given to banks in connection with facilities granted to subsidiaries	**2,361,000**	**–**	**–**	**2,361,000**

	2009			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Other payables (note 30)	10,739	–	–	10,739
Due to associates of TCL Corporation (note 30)	953	–	–	953
	11,692	–	–	11,692
The maximum amount of the guarantee given to banks in connection with facilities granted to subsidiaries	1,585,000	–	–	1,585,000

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the two years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, interest-bearing amounts due to TCL Corporation, less cash and bank balances and pledged deposits. Total capital refers to equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

Group

	2010	2009
	HK$'000	HK$'000
Interest-bearing bank and other borrowings (note 31)	**5,128,660**	2,130,240
Due to TCL Corporation (note 25)	**590,059**	129,457
Less: Cash and bank balances (note 27)	**(2,132,619)**	(2,078,724)
Pledged deposits (note 27)	**(2,374,328)**	(86,725)
Net debt	**1,211,772**	94,248
Equity attributable to owners of the parent	**3,144,446**	3,620,679
Gearing ratio	**38.5%**	2.6%

43. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 23 February 2011, the Group successfully obtained the necessary consent from the majority of the lenders of the Syndicated Loans for the Group's request in respect for the waiver to demand immediate payment of the Syndicated Loans as a result of the breach of certain financial covenants (note 31).

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 25 February 2011.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
TURNOVER	**26,948,627**	30,342,550	25,773,322	21,294,104	29,186,823
PROFIT/(LOSS) BEFORE TAX	**(835,244)**	571,419	(132,416)	(201,263)	(2,411,311)
Income tax expense	**(138,169)**	(167,359)	(119,045)	(51,916)	(96,523)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(973,413)**	404,060	(251,461)	(253,179)	(2,507,834)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	–	–	–	7,362
PROFIT/(LOSS) FOR THE YEAR	**(973,413)**	404,060	(251,461)	(253,179)	(2,500,472)
Attributable to:					
Owners of the parent	**(983,161)**	396,523	(268,245)	(262,016)	(2,497,314)
Non-controlling interests	**9,748**	7,537	16,784	8,837	(3,158)
	(973,413)	404,060	(251,461)	(253,179)	(2,500,472)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**18,500,653**	14,921,161	12,616,968	10,779,873	12,397,004
Total liabilities	**(15,250,996)**	(11,208,696)	(9,203,862)	(8,516,299)	(10,706,962)
Non-controlling interests	**(105,211)**	(91,786)	(124,684)	(104,518)	(88,876)
	3,144,446	3,620,679	3,288,422	2,159,056	1,601,166

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