



TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED
(TCL 通訊科技控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2618)

RESULTS ANNOUNCEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007

FINANCIAL HIGHLIGHTS

Unaudited results for the THREE months ended 30 September

<i>(HK\$ million)</i>	2007	2006	Change
Turnover	1,354	1,371	-1%
Gross Profit	201	247	-19%
EBITDA	61	66	N/A
Profit before unrealised gain on changes in fair value of convertible bonds	2	2	N/A
Profit Before Tax	40	25	N/A
Profit Attributable to Equity Holders of the Parent	40	21	N/A
Basic Earnings per share (HK cents)	0.63	0.4	N/A

OPERATIONAL HIGHLIGHTS

- Total unit shipment reached 3.6 million units in the third quarter of 2007
- Successfully launched new products, including U7 basic voice phones, and K7 & C7 entry level multimedia phones in overseas markets
- Achieved the sixth consecutive profitable quarter in the third quarter of 2007
- Relunched Alcatel brand in China
- Extended Alcatel brand for another 10 years to 2024

The Board of Directors of TCL Communication Technology Holdings Limited (“TCT” or the “Company”) announced the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for three months and nine months ended 30 September 2007, with comparative figures for the same period last year as follows:

These condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Nine months ended 30 September 2007 (Unaudited) <i>HK\$'000</i>	Nine months ended 30 September 2006 (Unaudited) <i>HK\$'000</i>	Three months ended 30 September 2007 (Unaudited) <i>HK\$'000</i>	Three months ended 30 September 2006 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>				
REVENUE	2	3,430,979	3,875,558	1,353,692	1,370,796
Cost of sales		(2,907,116)	(3,339,288)	(1,152,465)	(1,123,835)
Gross profit		523,863	536,270	201,227	246,961
Other income and gains	3	51,925	95,573	23,408	8,329
Research and development costs		(62,854)	(140,948)	(47,029)	(58,683)
Selling and distribution costs		(234,522)	(271,961)	(85,571)	(95,046)
Administrative expenses		(223,056)	(206,588)	(79,937)	(56,816)
Other operating expenses		(5,388)	(4,201)	(1,909)	4,742
Finance costs	4	(22,590)	(33,702)	(7,933)	(23,918)
Share of losses of an associate		(14,462)	(11,243)	–	(979)
PROFIT/(LOSS) BEFORE UNREALISED GAIN ON CHANGES IN FAIR VALUE OF CONVERTIBLE BONDS		12,916	(36,800)	2,256	24,590
Unrealised gain on changes in fair value of convertible bonds	11	31,172	–	37,965	–
PROFIT/(LOSS) BEFORE TAX	5	44,088	(36,800)	40,221	24,590
Tax	6	(1,773)	(13,110)	–	(3,851)
PROFIT/(LOSS) FOR THE PERIOD		42,315	(49,910)	40,221	20,739
Attributable to:					
Equity holders of the parent		42,315	(49,910)	40,221	20,739
DIVIDENDS	7				
Interim		–	–	–	–
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK Cents)	8				
Basic		0.66	(0.9)	0.63	0.4
Diluted		0.66	(0.9)	0.62	0.4

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		267,579	262,495
Prepaid land lease payments		10,793	11,219
Intangible assets		50,340	9,194
Deferred tax assets		10,629	10,640
Interest in an associate		–	130,301
Available-for-sale investment		20,207	20,207
Goodwill		133,069	–
Other non-current assets		3,096	590
		495,713	444,646
CURRENT ASSETS			
Inventories		444,139	581,416
Trade receivables	9	1,110,573	1,113,198
Factored trade receivables		128,500	256,483
Notes receivable		109,898	60,252
Prepayments, deposits and other receivables		313,090	395,351
Due from related companies		130,991	229,359
Tax recoverable		28,148	22,048
Pledged deposits		28,499	36,603
Cash and cash equivalents		548,042	531,001
		2,841,880	3,225,711
CURRENT LIABILITIES			
Trade and notes payables	10	1,043,065	1,212,670
Bank advance on discounted notes receivable and factored trade receivables		128,500	322,544
Tax payable		1,882	–
Other payables and accruals		542,177	770,683
Provision for warranties		74,231	80,995
Due to related companies		214,529	444,909
		2,004,384	2,831,801
NET CURRENT ASSETS			
		837,496	393,910
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,333,209	838,556
NON-CURRENT LIABILITIES			
Retirement indemnities		536	496
Long service medals		435	403
Convertible notes		–	165,670
Convertible bonds	11	311,840	–
		312,811	166,569
Total non-current liabilities			
		312,811	166,569
Net assets			
		1,020,398	671,987
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		718,533	593,971
Equity component of convertible notes		–	19,430
Reserves		301,865	58,586
		1,020,398	671,987
Total equity			
		1,020,398	671,987

Notes:

1. ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the available-for-sale investment, which has been measured at fair value. These financial statements are prepared in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated. The accounting policies and basis of preparation adopted in the preparation of these financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except those mentioned in the first quarter and interim result announcements of the Company this year.

2. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of mobile phones and related components. All of the Group’s products are of a similar nature and subject to similar risk and returns. Accordingly, the Group’s operating activities are attributable to a single business segment.

The Group’s revenue is principally attributable to subsidiaries located in various geographical regions. Each of the Group’s geographical segments represents the location of the business division’s production or service facilities, which is subject to risks and returns that are different from those of the other geographical segments.

The following table presents revenue for the Group’s geographical segments.

Europe		Latin America		The PRC (including Hong Kong)		Consolidated	
Nine months ended 30 September		Nine months ended 30 September		Nine months ended 30 September		Nine months ended 30 September	
2007	2006	2007	2006	2007	2006	2007	2006
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000

Segment revenue:

Sales to external customers	<u>1,214,690</u>	<u>1,364,062</u>	<u>873,629</u>	<u>1,129,806</u>	<u>1,342,660</u>	<u>1,381,690</u>	<u>3,430,979</u>	<u>3,875,558</u>
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3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and related components sold and services rendered during the period, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

An analysis of turnover, other income and gains is as follows:

	For the nine months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Sale of mobile phones and related components	<u>3,430,979</u>	<u>3,875,558</u>
Other income and gains		
Interest income	11,558	14,734
Subsidy income	12,262	162
VAT refund #	9,391	–
Value-added services income	4,109	2,601
Deemed gain on dilution of interest in an associate*	–	32,435
Exchange gain	4,878	41,000
Gains on disposal of property, plant and equipment	5,310	–
Others	4,417	4,641
	<u>51,925</u>	<u>95,573</u>

* The deemed gain on dilution of interest in an associate for the nine months ended 30 September 2006 represented the gain on the dilution of the Company's shareholding interest in JRD Communication Inc. ("JRDC") from 46.25% to 38.54%, net of the disposal of the related positive goodwill of approximately HK\$733,000 as a result of the receipt by JRDC of US\$16 million for the new share issue in June 2006.

During three months ended 30 September 2007, JRD Communication (Shenzhen) Limited, being designated software enterprises, was entitled to VAT refunds on the effective VAT rate in excess of 3% after the payment of statutory net output VAT of 17%.

4. FINANCE COSTS

	For the nine months ended 30 September	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Interest on bank loan and other loans wholly repayable within five years	7,195	20,610
Interest on convertible notes	3,454	4,153
Interest on convertible bonds	8,688	–
Interest on discounted notes and factored trade receivables	3,253	8,939
	<u>22,590</u>	<u>33,702</u>

5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging:

	For the nine months ended 30 September	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Depreciation of property, plant and equipment	61,248	64,011
Prepaid land lease recognised	417	307
Amortisation of intangible assets	4,887	1,856
	<u>66,552</u>	<u>66,174</u>

6. TAX

	For the nine months ended 30 September	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Group:		
Current period provision		
Mexico	833	13,016
Brazil	940	–
Deferred	–	94
	<u>1,773</u>	<u>13,110</u>
Total tax charge for the period	<u>1,773</u>	<u>13,110</u>

No Hong Kong profits tax has been provided (2006: 17.5%) since no assessable profits was arisen in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. (“Mobile Hohhot”), a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. Mobile Hohhot also enjoys preferential tax treatment as being foreign investment enterprises located in the western region of China, including 50% reduction in national corporate income tax until 2010. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate from 2004 to 2006 was 7.5%. Mobile Hohhot is subject to the PRC corporate income tax rate of 15% from 2007 to 2010 and 25% thereafter.

No profits tax has been provided in the PRC as no taxable income arose during the period.

T&A Mobile Phones SA de CV Limited paid royalties to T&A Mobile Phones SAS for general relations and contract service charge. According to the applicable Mexican withholding tax regulation, the payments characterised as royalties are subject to a 10% tax on payments defined as royalties under the applicable Mexico – France tax treaty.

In 2007, T&A Mobile Phones – Comercio de Telefonos Ltda is subject to corporate income tax rate of 25% and social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Article 220 and 221 of the Income Tax Regulation in Brazil.

7. DIVIDEND

The directors of the Company do not recommend any payment of interim dividend for the nine months ended 30 September 2007 (2006: Nil).

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

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

	For the nine months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	42,315	(49,910)

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	6,383,615,142	5,725,449,844
Effect of diluted weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options	66,167,463	36,907,597
	<u>6,449,782,605</u>	<u>5,762,357,441</u>

The calculation of the diluted earnings/(loss) per share for the nine months ended 30 September 2007 has also taken into account the convertible bonds and share options outstanding during the period. Since the exercise price of certain share option during the period is lower than the fair market value of the ordinary share, the share option outstanding during the period has a dilutive effect to the Company.

The calculation of basic and diluted earnings per share has included the unrealised gain on changes in fair value of derivative component of convertible bonds. It is not an indicator of the Group's operating performance in 2007.

The basic and diluted earnings per share for the nine months ended 30 September 2007 is HK cents 0.17 and HK cents 0.17 respectively if excluding unrealised gain on changes in fair value of derivative component of convertible bonds.

9. TRADE RECEIVABLES

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

	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 3 months	972,545	1,056,795
4 to 12 months	144,496	48,708
Over 12 months	2,186	25,633
	<u>1,119,227</u>	<u>1,131,136</u>
Impairment loss of trade receivables	(8,654)	(17,938)
	<u>1,110,573</u>	<u>1,113,198</u>

10. TRADE AND NOTES PAYABLES

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

	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Within 6 months	1,018,873	1,138,334
7 to 12 months	14,390	65,618
More than 1 year	9,802	8,718
	<u>1,043,065</u>	<u>1,212,670</u>

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

All trade and notes payables are not secured by the pledged deposits.

11. CONVERTIBLE BONDS

On 2 April 2007 and 1 June 2007, the Company issued a zero coupon convertible bonds with an aggregate principal amount of USD 27 Million and USD 18 Million respectively (the "Convertible Bonds"). The five-year Convertible Bonds were issued with conversion price of HKD0.3275 and will mature on 2 Apr 2012.

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

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

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

Fair value of conversion option

The embedded conversion option has been separated from the host debt contract and accounted for as a derivative liability carried at fair value through profit or loss. The fair value of this conversion option which is not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation model requires the input of subjective assumptions, such as the volatility of share price, stock closing price, dividend yield, risk free rate and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. For the nine months ended 30 September 2007, the fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes model with the major inputs used in the model as follows:

i) Call option held by the Company – Convertible Bonds – USD27M

Parameter	2 April 2007	30 September 2007
a) Bond Price	US\$867.22	US\$902.41
b) Exercise Price	US\$1,218.05	US\$1,201.44
c) Risk-free Rate	3.923%	3.920%
d) Expected Life	42 months	36 months
e) Volatility	18.894%	19.820%

ii) Call option held by the Company – Convertible Bonds – USD18M

Parameter	1 June 2007	30 September 2007
a) Bond Price	US\$861.94	US\$902.41
b) Exercise Price	US\$1,206.83	US\$1,201.44
c) Risk-free Rate	4.446%	3.920%
d) Expected Life	40 months	36 months
e) Volatility	20.906%	19.820%

iii) Conversion option held by the Bondholder – Convertible Bonds – USD27M

Parameter	2 April 2007	30 September 2007
a) Stock Price	HK\$0.247	HK\$0.280
b) Exercise Price	HK\$0.3275	HK\$0.3275
c) Risk-free Rate	3.850%	3.866%
d) Expected Life	30 months	27 months
e) Volatility	48.330%	51.700%

iv) Conversion option held by the Bondholder – Convertible Bonds – USD18M

Parameter	1 June 2007	30 September 2007
a) Stock Price	HK\$0.355	HK\$0.280
b) Exercise Price	HK\$0.3275	HK\$0.3275
c) Risk-free Rate	4.401%	3.866%
d) Expected Life	29 months	27 months
e) Volatility	52.02%	51.700%

v) *Put option held by the Bondholder – Convertible Bonds – USD27M*

Parameter	2 April 2007	30 September 2007
a) Bond Price	US\$867.22	US\$902.41
b) Exercise Price	US\$1,170	US\$1,170
c) Risk-free Rate	3.888%	3.885%
d) Expected Life	36 months	30 months
e) Volatility	19.551%	19.82%

vi) *Put option held by the Bondholder – Convertible Bonds – USD18M*

Parameter	1 June 2007	30 September 2007
a) Bond Price	US\$861.94	US\$902.41
b) Exercise Price	US\$1,170	US\$1,170
c) Risk-free Rate	4.423%	3.885%
d) Expected Life	34 months	30 months
e) Volatility	20.906%	19.82%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 2 April 2007 to 30 September 2007 resulted in a fair value gain of approximately HK\$31 million, which has been recorded as the “Unrealised gain on changes in fair value of derivative component of Convertible Bonds” in the income statement for the nine months ended 30 September 2007.

The carrying value of the derivative component and liability component of the Convertible Bonds as at 30 September 2007 are as follows:

	30 September 2007
Liability component	USD23,932,747
Derivative component	USD17,046,270
Carrying value of convertible bonds	USD40,979,017
Number of conversion shares at the issuance date (shares)	1,061,532,214

Conversion of USD 500,000 of the Convertible Bonds has occurred up to 30 September 2007.

12. BUSINESS COMBINATION

On 3 July 2007, the Group has completed the acquisition of JRDC, in accordance with the subscription agreement and the share purchase agreement both dated 18 April 2007. For further details, please refer to announcements of the Company dated 18 April 2007 and 3 July 2007. The purchase consideration for the acquisition was in the form of cash, in amount of HKD306,641,533 which had been duly paid in accordance with the said share purchase agreement.

The fair values of the identifiable assets and liabilities of JRDC as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognized on acquisition <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
Property, plant and equipment	30,852	30,852
Intangible assets	3,902	3,902
Other long-term assets	23,144	23,144
Cash and bank balances	4,725	4,725
Trade receivables	11,584	11,584
Prepayments and other receivables	151,326	151,326
Trade payables	(1,200)	(1,200)
Accruals and other payables	(46,460)	(46,460)
	<u>177,873</u>	<u>177,873</u>
Goodwill on acquisition	128,769	128,769
Satisfied by cash	<u>306,642</u>	<u>306,642</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The global mobile handset market is characterised by severe competition, despite expansion in market size. The top five brandnames continued to lead the market by offering innovative designs and multimedia functions to capture the higher end market, while second tier players are focusing on maintaining price competitiveness of entry level products. On the other hand, Chinese manufacturers, including the Group, are becoming significant players in the European and emerging markets.

Business Review

During the third quarter of 2007, the Group has achieved the sixth consecutive profitable quarter, without increasing much liability. The overseas market has successfully launched new products, with favourable sales for basic voice (U7 series) and orders from western operators for multimedia phones (C7 and K7 series).

The Group has relaunched Alcatel brand products into the China market. Furthermore, the Group has enhanced its collaboration with Alcatel, which has agreed to extend the Group's usage of Alcatel brand name for ten more years till 2024.

The Group continued to lower its cost through stringent control on raw material procurement and effective logistic management, in addition to operation of assembly plants in major markets to reduce costs.

Review of Operations

During the third quarter of 2007, the Group sold approximately 3.6 million units of handsets, representing an increase of 30% when compared with that of the same period last year, and a 73% growth quarter-on-quarter.

The Group recorded strong sales performance during the third quarter, following its acceleration of ramp-up execution capability. The shipment of Alcatel handsets, amounted to 3.2 million units after three months' ramp-up.

Following the successful clearance of end-of-life products in the previous quarter, the Group managed to secure sizeable orders for the new products launched in the third quarter.

To lower the costs of its LATAM operations, the Group has set up a new assembly facility in Juarez, Mexico, under our sister company, TCL Multimedia Technology Holdings Limited. Sales volume in the PRC also demonstrated significant appreciation over that of the previous quarter.

Sales volume breakdown by geographical locations

('000 units)	Handset Unit Sales For the three months ended 30 September		
	2007	2006	Change (%)
Overseas	3,192	2,214	+44%
PRC	405	558	-27%
Total	<u>3,597</u>	<u>2,772</u>	<u>+30%</u>

EMEA¹

With the introduction of a new product range to its key markets, the Group's EMEA operations reported a substantial upsurge in sales volume, which was doubled than that of the second quarter of the same year. Unit shipment of EMEA in the third quarter amounted to approximately 1.2 million units. The Group continued to consolidate its significant position in Spain, Netherlands, Italy, UK, Greece, France and Russia. The Group also gained significant market shares in Africa.

The entry level multimedia range of new products, launched in third quarter, had been well-received in Europe, while the introduction of entry level black and white product range succeeded in gaining grounds in Africa and Russia.

LATAM¹

Capitalizing on its strong partnership with the two largest operators in the LATAM, the Group expedited its penetration into the Central and South American markets.

1: Note: The abbreviations refer to Europe, Middle East and Africa ("EMEA");
S&M/CS centres are: Latin America ("LATAM")

Unit shipment of LATAM in the third quarter amounted to approximately 1.4 million units, an increase of 45% year-on-year and 51% quarter-on-quarter, with major markets in Mexico, Central America and North Latam markets. The Group's success in ensuring on-time delivery taking advantage of the supply from our Huizhou factory, helped to further cement its relationship with key customers. In addition, the inauguration of a new assembly facility in LATAM had contributed to lower the Group's costs in the market.

The sales volume in the fourth quarter is expected to report significant upsurge with the introduction of U7 and C7 families. These two series will become the profit-driver for the LATAM market.

The PRC

During the period under review, the aggregated sales volume of TCL brand and Alcatel brand handsets in the PRC amounted to around 405,000 units, representing 59% increase over that of the second quarter.

The Group's plan to market a separate line of products under the Alcatel brand in the PRC had achieved noticeable progress, with an order secured from China Unicom.

Five models under the Alcatel brand and eight models under the TCL brand were introduced to China market during the third quarter.

Other Markets

The Group's newly founded CDMA business has been actively exploring business opportunities with major operators in various markets. Small shipments had been made to Thailand and Taiwan during the period. With favorable reception of Alcatel CDMA from the operators, the Group is working to explore the markets in Mainland China, Venezuela, Ukraine and Poland.

The Group continued its momentum in the development of the APAC market, and succeeded in expanding its sales to the Philippines and establishing business relations with operators in Taiwan. New markets under development included Vietnam and Israel.

The India market has a strong demand for higher quality handset at lower price. The Group had been building up its presence in the market through establishing relationship with local distributors and operators, and succeeded in increasing its number of customers.

Product Development

Eight new Alcatel handset models and another eight TCL handset models were launched in the third quarter of 2007. With the incorporation of low power consumption, multi-touch LCD panel, and a variety of other special features in its handsets, Alcatel has been perceived as one of the best suppliers of entry level mobile phone products to global operators. Dual base band technology is applied in TCL-brand new products, which features finger swipe navigation, dual LCD and dual speaker functions.

Moving forward, the Group will focus on the development of multimedia handsets combining touch screen, homepage browsing and power-saving features. In addition, more resources will be placed in the development of dual-GSM and EDGE. For lower-end products the Group will emphasize on offering creative and fashionable design at affordable prices.

FUTURE OUTLOOK

The Group expects full year sales volume to be in line with its target of 12 to 13 million units. With its production capacity fully booked for the fourth quarter, the Group anticipates a 44% quarter-on-quarter upsurge in sales volume in the fourth quarter. The Group still remains positive to attain a profitable year in 2007.

In respect of the China market, the Group is still expecting to be healthy in view of inventory level, sales and profitability in the fourth quarter of 2007. The Group is going to launch Blackberry in China during the fourth quarter of 2007.

The Group is expecting to launch 3G WCDMA phones in the fourth quarter to the Western operators.

2: *Note: The inventory only included finished goods.*

FINANCIAL REVIEW

Results

For the nine months ended 30 September 2007, the Group's unaudited consolidated revenue amounted to HK\$3,431 million (2006: HK\$3,876 million), representing a year-on-year decrease of 11% as compared to the same period last year.

The Group's gross profit margin rose to 15% from 14% in the same period last year, despite the keen competition and general declining product prices.

EBITDA and Profit attributable to equity holders of the parent improved to approximately HK\$121 million and HK\$42 million respectively (2006: EBITDA and loss attributable to shareholders was HK\$48 million and HK\$50 million respectively). Basic earnings per share was HK0.66 cents (2006: basic loss per share were HK 0.9 cents).

Inventory

The Group's inventory² turnover period was 19 days (same period 2006: 27 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivable turnover was 89 days (same period 2006: 57 days).

Significant Investments and Acquisition

On 3 July 2007, the Group has completed the acquisition of JRDC, in accordance with the subscription agreement and the share purchase agreement both dated 18 April 2007. For further details, please refer to the announcements of the Company dated 18 April 2007 and 3 July 2007.

Except for the significant investments and acquisition as disclosed above, there was no significant investment and acquisition for the nine months ended 30 September 2007.

Fund Raising

On 2 April 2007 and 1 June 2007, the Company issued a zero coupon Convertible Bonds with an aggregate principal amount of US\$27 Million and US\$18 Million respectively. The five-year Convertible Bonds were issued with conversion price of HK\$0.3275 and will mature on 2 April 2012.

Due to several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Group is HK\$ while the conversion of the Convertible Bonds denominated in US\$), the conversion will not result in the exchange of a fixed number of the Company's shares. In accordance with the requirements of HKAS 39, Financial Instruments-Recognition and Measurement, the Convertible Bond contract must be separated into two component elements: a derivative component consisting of the conversion option and a liability component of the straight debt element of the bonds. The conversion option is carried at fair value on the balance sheet with any changes in fair value being charged or credited to the income statement in the period when the change occurs. The fair value of derivative component of the Convertible Bonds is calculated using the Black-Scholes Model, which considers various factors such as exercise price, expected life of options, volatility, risk free rate and the closing price of our share at valuation date. Due to the change in our share price from HK\$0.25 as at 2 April 2007 and HK\$0.36 as at 1 June 2007 to HK\$0.28 as at 30 September 2007, the fair value of the derivative component in respect of the Convertible Bonds has increased and therefore resulted in an unrealised gain on changes of fair value of derivative component of Convertible Bonds amounting to HK\$31 million recognised in the income statement. The unrealized gain had no effect on our cash flows or other aspects of our operations in 2007.

On 3 July 2007, the Group has completed the acquisition of JRDC, in accordance with the subscription agreement and the share purchase agreement both dated 18 April 2007. Ocean Victory, High Hero, TCT Shareholdings, Right Chance and Bounty Reward (collectively the "Subscribers") entered into a subscription agreement with the Group pursuant to which the Group has issued and allotted and the Subscribers have subscribed for 1,215,430,000 shares in the Group in aggregate at a total consideration of HK\$268,093,472. Equity attributable to equity holders of the parent increased by HKD268,093,472 accordingly. The consideration received was used to finance the acquisition of the shares in JRDC as mentioned in the Section under the heading "Significant Investment and Acquisition".

Except for fund raising as disclosed above, there was no fund raising for the nine months ended 30 September 2007.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period. The cash and cash equivalents balances as at 30 September 2007 amounted to HK\$548 million, of which 36% were in Renminbi, 53% in US dollars, 6% in Euro and 5% in Hong Kong dollars & other currencies for the operations. The Group's financial position remains healthy, with total assets of HK\$3,338 million and a gearing ratio of 16% at the end of the period (30 September 2006: 20%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings over total assets.

Pledge of Deposits

Deposit balance of approximately HK\$28,499,000 (31 December 2006: HK\$36,603,000) represented the retention guarantee for factored trade receivables.

Capital Commitment and Contingent Liabilities

As at 30 September 2007, the Group had capital commitments contracted, but not provided for of approximately HK\$559,000 (31 December 2006: nil).

The Group had the no contingent liabilities for the nine months ended 30 September 2007.

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, USD and RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

Employees and Remuneration Policy

The Group had approximately 4,877 employees as at 30 September 2007. Total staff costs for the period under review were approximately HK\$165 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the nine months ended 30 September 2007, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

AUDIT COMMITTEE

The unaudited consolidated results for the nine months ended 30 September 2007 have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises three members including Messrs. Lau Siu Ki (Chairman) and Shi Cuiming, independent non-executive directors of the Company, and Mr. Bo Lianming, a non-executive director of the Company.

On behalf of the Board
TCL Communication Technology Holdings Limited
Li Dongsheng
Chairman
Hong Kong

29 October 2007

As at the date of this announcement, the Board comprises Mr. Li Dongsheng, Mr. Liu Fei, Mr. Wong Toe Yeung and Mr. Yan Yong, being the executive directors; Mr. Bo Lianming, being the non-executive director and Mr. Lau Siu Ki, Mr. Liu Chung Laung and Mr. Shi Cuiming, being the independent non-executive directors.