



TCL Communication Technology Holdings Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2618)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 December 2007

FINANCIAL HIGHLIGHTS			
<i>Audited results for the year ended 31 December</i>			
	2007	2006	Change
	(HK\$million)	(HK\$million)	
Turnover	4,971	5,502	-10%
Gross Profit	847	792	7%
EBITDA	148	153	N/A
Net profit before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds	66	15	340%
Changes in fair value of the derivative component of convertible bonds	(10)	-	N/A
Interest on convertible bonds	(23)	-	N/A
Profit Attributable to Equity Holders of the Parent	33	15	120%
Basic Earnings per share (HK cents)	0.5	0.3	N/A

OPERATIONAL HIGHLIGHTS

- Total number of handsets sold reached 11.9 million in 2007, representing an increase of 3.5 % from that of 2006
- Successfully launched BlackBerry in the PRC market, and C7 & U7 multimedia phones in overseas markets
- Achieved a gross profit of 17% in 2007, remain profitable for seven consecutive quarters
- Relunched the Alcatel brand in China during second half of the year
- Extended the Alcatel brand license for another 10 years to 2024

The Board of Directors of TCL Communication Technology Holdings Limited (“TCT” or the “Company”) announced the audited consolidated results and financial position of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007, with comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December		Three months ended 31 December	
		2007 HK\$'000 (Audited)	2006 HK\$'000 (Audited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
REVENUE	4	4,971,081	5,501,627	1,540,102	1,626,069
Cost of sales		<u>(4,123,975)</u>	<u>(4,709,736)</u>	<u>(1,216,860)</u>	<u>(1,370,448)</u>
Gross profit		847,106	791,891	323,242	255,621
Other income and gains	4	70,722	142,981	18,796	47,408
Research and development expenses		(173,343)	(177,168)	(110,489)	(36,220)
Selling and distribution costs		(336,954)	(371,228)	(102,432)	(99,267)
Administrative expenses		(330,643)	(300,420)	(107,586)	(93,832)
Other operating expenses		(1,510)	(15,308)	3,878	(11,107)
Finance costs excluding interest on convertible bonds	6	(16,185)	(29,118)	(2,283)	4,584
Share of profit/(losses) of an associate		<u>(16,943)</u>	<u>(9,498)</u>	<u>(2,481)</u>	<u>1,745</u>
		42,250	32,132	20,645	68,932
Changes in fair value of the derivative component of convertible bonds		(10,041)	-	(41,213)	-
Interest on convertible bonds	6	<u>(22,747)</u>	<u>-</u>	<u>(14,059)</u>	<u>-</u>
PROFIT/(LOSS) BEFORE TAX	5	9,462	32,132	(34,627)	68,932
Tax	7	<u>23,601</u>	<u>(16,709)</u>	<u>25,375</u>	<u>(3,599)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>33,063</u>	<u>15,423</u>	<u>(9,252)</u>	<u>65,333</u>
Attributable to:					
Equity holders of the parent		<u>33,063</u>	<u>15,423</u>	<u>(9,252)</u>	<u>65,333</u>
DIVIDENDS					
Interim and final	8	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK Cents)	9				
Basic		<u>0.5</u>	<u>0.3</u>		
Diluted		<u>0.5</u>	<u>0.3</u>		

CONSOLIDATED BALANCE SHEET

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		252,934	262,495
Prepaid land lease payments		17,137	11,219
Intangible assets		38,997	9,194
Deferred tax assets		34,437	10,640
Interest in an associate		-	130,301
Goodwill		137,820	-
Available-for-sale investment		20,207	20,207
Interest in a jointly controlled entity		5,340	-
Other non-current assets		802	590
Total non-current assets		<u>507,674</u>	<u>444,646</u>
CURRENT ASSETS			
Inventories		461,495	581,416
Trade receivables	10	1,015,407	1,113,198
Factored trade receivables		199,652	256,483
Notes receivable		67,061	60,252
Prepayments, deposits and other receivables		329,238	395,351
Due from related companies		35,630	229,359
Tax recoverable		33,210	22,048
Pledged deposits		958,738	36,603
Cash and cash equivalents		708,716	531,001
Total current assets		<u>3,809,147</u>	<u>3,225,711</u>
CURRENT LIABILITIES			
Interest bearing bank borrowings		838,791	-
Trade and notes payables	11	1,052,376	1,212,670
Bank advances on discounted notes receivable and factored trade receivables		199,652	322,544
Forward contracts		9,495	-
Tax payable		1,724	-
Other payables and accruals		551,654	770,683
Provision for warranties		71,358	80,995
Due to related companies		167,842	444,909
Total current liabilities		<u>2,892,892</u>	<u>2,831,801</u>
NET CURRENT ASSETS		<u>916,255</u>	<u>393,910</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,423,929</u>	<u>838,556</u>

CONSOLIDATED BALANCE SHEET (Continued)

	Notes	2007 HK\$'000	2006 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,423,929</u>	<u>838,556</u>
NON-CURRENT LIABILITIES			
Retirement indemnities		1,691	496
Long service medals		977	403
Convertible notes		-	165,670
Convertible bonds	12	<u>368,838</u>	<u>-</u>
Total non-current liabilities		<u>371,506</u>	<u>166,569</u>
Net assets		<u>1,052,423</u>	<u>671,987</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		718,689	593,971
Shares held for Share Award Scheme		(9,570)	-
Equity component of convertible notes		-	19,430
Reserves		<u>343,304</u>	<u>58,586</u>
Total equity		<u>1,052,423</u>	<u>671,987</u>

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the Group’s forward contracts, the derivative component of the convertible bonds and available-for-sale investment, which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	<i>Financial Instruments: Disclosures</i>
HKAS 1 Amendment	<i>Capital Disclosures</i>
HK(IFRIC)-Int 8	<i>Scope of HKFRS 2</i>
HK(IFRIC)-Int 9	<i>Reassessment of Embedded Derivatives</i>
HK(IFRIC)-Int 10	<i>Interim Financial Reporting and Impairment</i>

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS
(continued)

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

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option schemes, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3. SEGMENT INFORMATION

The Group is principally engaged in the research, development, manufacturing 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 tables present revenue for the Group's geographical segments.

	Europe		Latin America		The PRC (including Hong Kong)		Consolidated	
	Year ended		Year ended		Year ended		Year ended	
	31 December		31 December		31 December		31 December	
	2007	2006	2007	2006	2007	2006	2007	2006
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:								
Sales to external customers	<u>1,752,950</u>	<u>1,979,172</u>	<u>1,263,018</u>	<u>1,533,940</u>	<u>1,955,113</u>	<u>1,988,515</u>	<u>4,971,081</u>	<u>5,501,627</u>

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2007 HK\$'000	2006 HK\$'000
Revenue		
Sale of mobile phones and related components	<u>4,971,081</u>	<u>5,501,627</u>
Other income and gains		
Interest income	15,138	12,760
Subsidy income	17,509	30,438
VAT refund #	16,941	-
Value-added service income	6,579	4,745
Deemed gain on dilution of an interest in an associate *	-	32,435
Exchange gain, net	2,969	4,479
Royalty income	-	18,646
Insurance claim income	-	3,465
Gain on disposal of items of property, plant and equipment	5,327	19,293
Others	<u>6,259</u>	<u>16,720</u>
Other income and gains	<u><u>70,722</u></u>	<u><u>142,981</u></u>

* The deemed gain on dilution of an interest in an associate for the year ended 31 December 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 the year ended 31 December 2007, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

5. PROFIT BEFORE TAX

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

	2007 HK\$'000	2006 HK\$'000
Depreciation	107,342	97,801
Prepaid land lease recognised	709	587
Amortisation of computer software and intellectual property	7,698	6,475
Research and development costs:		
Deferred expenditure amortised	38,208	-
Current year expenditure	135,135	177,168
Impairment loss/(write back) of trade receivables *	4,723	(26,119)
Gain on disposal of items of property, plant and equipment	<u>(5,327)</u>	<u>(19,293)</u>

* The write-back of trade receivables in 2006 is mainly made for the Group's customers operating in the PRC.

6. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest on bank loans, and other loans wholly repayable within five years	7,542	17,445
Interest on discounted notes and factored trade receivables*	5,190	6,120
Interest on convertible notes	<u>3,453</u>	<u>5,553</u>
Finance costs excluding interest on convertible bonds	16,185	29,118
Interest on convertible bonds**	<u>22,747</u>	<u>-</u>
Total finance costs	<u>38,932</u>	<u>29,118</u>

* The effective interest rates of discounted notes and factored trade receivables are 0.5% per month and 0.62% per month respectively.

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

7. TAX

	2007 HK\$'000	2006 HK\$'000
Current year provision:		
France	-	1,029
Mexico	-	17,192
Deferred		
The PRC	(20,532)	-
Mexico	(3,069)	(1,512)
	<u>(23,601)</u>	<u>(1,512)</u>
Tax (credit)/charge for the year	<u>(23,601)</u>	<u>16,709</u>

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

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

7. TAX (continued)

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 a preferential tax treatment as being a foreign investment enterprise 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% in 2007.

According to the Income Tax Law of the PRC on the newly established high technology software enterprises, JRD Communication (Shenzhen) Limited, a subsidiary of the Company in the PRC, is entitled to exemption from the PRC Corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% preferential tax treatment for the subsequent three years as being a newly established high technology software enterprise. No taxable profit arose from JRD Communication (Shenzhen) Limited in 2007.

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

During 2006, T&A Mobile Phones S.A. de C.V. 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 tax rate of 10% on payments defined as royalties under the applicable Mexico - France tax treaty.

During 2007, T&A Mobile Phones S.A. de C.V. Limited was subject to tax on assets at a tax rate of 1.25% over 2006 average specific assets balances. This tax will be applied on certain current assets and on fixed assets of Mexican companies and foreigners’ assets within Mexico to be transformed and returned out of Mexico and will be paid on an annual basis through monthly provisional payments.

In 2007, T&A Mobile Phones-Comercio de Telefonos Ltda is subject to a corporate income tax rate of 25% and a social contribution tax rate of 9% on the same taxable income (except for certain specific adjustments), according to Articles 220 and 221 of Income Tax Regulation in Brazil. No profit tax has been provided in Brazil as no taxable income arose during the year.

8. DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 December 2006 and 2007.

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

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

	2007 HK\$'000	2006 HK\$'000
<u>Profit</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>33,063</u>	<u>15,423</u>
<u>Shares</u>		
	Number of shares 2007	2006
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	6,572,893,734	5,509,280,895
Effect of diluted weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options	<u>70,129,104</u>	<u>46,831,228</u>
	<u><u>6,643,022,838</u></u>	<u><u>5,556,112,123</u></u>

The calculation of the diluted earnings per share for the year ended 31 December 2007 has also taken into account the convertible bonds and share options outstanding during the year. Since the exercise price of certain share options during the year was lower than the fair market value of the ordinary shares, the share options outstanding during the year had a dilutive effect on the Company. Since the conversion price of the convertible bonds was higher than the fair market value of the ordinary shares, the convertible bonds had an anti-dilutive effect on the Company.

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

10. TRADE RECEIVABLES

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

	2007 HK\$'000	2006 HK\$'000
Within 3 months	798,624	1,056,795
4 to 12 months	213,981	48,708
Over 12 months	<u>10,169</u>	<u>25,633</u>
	1,022,774	1,131,136
Impairment loss of trade receivables	<u>(7,367)</u>	<u>(17,938)</u>
	<u><u>1,015,407</u></u>	<u><u>1,113,198</u></u>

11. TRADE AND NOTES PAYABLES

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

	2007 HK\$'000	2006 HK\$'000
Within 6 months	1,050,623	1,138,334
7 to 12 months	1,251	65,618
More than 1 year	<u>502</u>	<u>8,718</u>
	<u><u>1,052,376</u></u>	<u><u>1,212,670</u></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.

12. CONVERTIBLE BONDS

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 "Convertible Bonds"). The five-year Convertible Bonds were issued with a conversion price of HK\$0.3275 per share and will mature on 2 April 2012. The yield to maturity is 5.709%.

Due to the several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Company being HK\$ while the conversion of the Convertible Bonds being denominated in US\$), the conversion will not result in the exchange of a fixed number of the Company's shares. In accordance with the requirements of HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments—Recognition and Measurement, the convertible bond contract must be separated into two component elements: a derivative component consisting of the conversion option and a liability component of the straight debt element of the Convertible Bonds.

On the issue of the Convertible Bonds, the fair value of the embedded conversion option was calculated using the Black-Scholes model. The derivative component, the embedded conversion option, is carried at fair value on the 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 the debt element of the Convertible Bonds, net of transaction costs, and is recorded as the liability component. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. Interest expense is calculated using the effective interest method by applying the effective interest rate to the liability component through the maturity date.

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

12. CONVERTIBLE BONDS (continued)

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 judgement 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 year ended 31 December 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 – US\$27 million

	<u>Parameter</u>	2 April 2007	31 December 2007
a)	Bond price	US\$867.22	US\$961.45
b)	Exercise price	US\$1,218.05	US\$1,167.83
c)	Risk-free rate	3.923%	2.795%
d)	Expected life	42 months	33 months
e)	Volatility	18.894%	29.427%

(ii) Call option held by the Company – Convertible Bonds – US\$18 million

	<u>Parameter</u>	1 June 2007	31 December 2007
a)	Bond price	US\$861.94	US\$961.45
b)	Exercise price	US\$1,206.83	US\$1,167.83
c)	Risk-free rate	4.446%	2.795%
d)	Expected life	40 months	33 months
e)	Volatility	20.906%	29.427%

12. CONVERTIBLE BONDS (continued)

Fair value of conversion option (continued)

(iii) Conversion option held by the Bondholder – Convertible Bonds – US\$27 million

	<u>Parameter</u>	2 April 2007	31 December 2007
a)	Stock price	HK\$0.247	HK\$0.310
b)	Exercise price	HK\$0.3275	HK\$0.3275
c)	Risk-free rate	3.850%	2.677%
d)	Expected life	30 months	25 months
e)	Volatility	48.330%	58.020%

(iv) Conversion option held by the Bondholder – Convertible Bonds – US\$18 million

	<u>Parameter</u>	1 June 2007	31 December 2007
a)	Stock price	HK\$0.355	HK\$0.310
b)	Exercise price	HK\$0.3275	HK\$0.3275
c)	Risk-free rate	4.401%	2.677%
d)	Expected life	29 months	25 months
e)	Volatility	52.02%	58.020%

(v) Put option held by the Bondholder – Convertible Bonds – US\$27 million

	<u>Parameter</u>	2 April 2007	31 December 2007
a)	Bond price	US\$867.22	US\$961.45
b)	Exercise price	US\$1,170	US\$1,170
c)	Risk-free rate	3.888%	2.704%
d)	Expected life	36 months	27 months
e)	Volatility	19.551%	37.09%

12. CONVERTIBLE BONDS (continued)

(vi) Put option held by the Bondholder – Convertible Bonds – US\$18 million

	Parameter	1 June 2007	31 December 2007
a)	Bond price	US\$861.94	US\$961.45
b)	Exercise price	US\$1,170	US\$1,170
c)	Risk-free rate	4.423%	2.704%
d)	Expected life	34 months	27 months
e)	Volatility	20.906%	37.09%

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 31 December 2007 resulted in a fair value loss of approximately HK\$10 million, which has been recorded as the “Changes in fair value of the derivative component of Convertible Bonds” in the income statement for the year ended 31 December 2007.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 31 December 2007 are as follows:

	31 December 2007
Liability component	HK\$205,978,142
Derivative component	HK\$162,859,942
Carrying value of convertible bonds	HK\$368,838,084
Number of conversion shares at the issuance date (shares)	1,061,532,214
Conversion price at the issuance date and balance sheet date	HK\$0.3275

Conversion of US\$ 500,000 of the Convertible Bonds has occurred up to 31 December 2007.

13. BUSINESS COMBINATION

On 3 July 2007, the Group completed the acquisition of 61.46% interest in JRD Communication Inc. and its subsidiaries (collectively "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 the amount of US\$39,313,017 (equivalent to HK\$306,641,533) 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 recognised on acquisition HK\$'000	Previous carrying amount HK\$'000
Property, plant and equipment	50,198	50,198
Intangible assets	44,006	44,006
Due from related companies	18,848	18,848
Cash and bank balances	7,688	7,688
Prepayments and other receivables	246,219	246,219
Trade payables	(1,954)	(1,954)
Accruals and other payables	(12,527)	(12,527)
Due to related companies	(63,498)	(63,498)
Net assets	<u>288,980</u>	<u>288,980</u>
Goodwill on acquisition	129,035	129,035
Reclassification for goodwill included in interest in an associate at 31 December 2006	8,785	8,785
	<u>426,800</u>	<u>426,800</u>
Satisfied by:		
Cash	306,642	306,642
Reclassification from an interest in an associate to an interest in a subsidiary	120,158	120,158
	<u>426,800</u>	<u>426,800</u>

13. BUSINESS COMBINATION (continued)

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

	HK\$'000
Cash consideration	(306,642)
Cash and bank balances acquired	<u>7,688</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>(298,954)</u></u>

Since its acquisition, JRDC contributed HK\$10,000 to the Group's turnover and HK\$58,305,000 to the consolidated loss for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the year would have been HK\$4,972,519,000 and HK\$28,013,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The global mobile handset market maintained a double-digit growth, with the total sales volume reaching 1.13 billion units worldwide, representing an increase of 12% from that of 2006. Despite intensive market penetration in developed countries, there were strong demands from developing countries and emerging markets. With the global market continued to be dominated by the top five brands, there had been a slight decline in average selling prices (“ASP”) due to intensified competition and increased sales of low-ended products to the emerging market.

The introduction of state-of-the-art technologies has given rise to the growth of devices with GPS, sensitive keys, multimedia user interface, full internet browsing and movement detection with G-Sensors. On the other hand, design and finishing had become the dominant factors for success in the entry level and Ultra-Low-Cost segment.

During the year, the market witnessed the phasing out of international players such as BenQ-Siemens, and the growing significance of Chinese manufacturers, including the Group, in the European and emerging markets.

Business Review

In 2007, the Group reported profits from both overseas and domestic markets, and maintained its momentum in profitability for the seventh consecutive quarter. In overseas market, where the Group’s products were sold under the Alcatel brand, there has been favorable market acceptance of the Group’s U7 and C7 product series. These products, which were launched in the second half of the year targeting at the ultra low cost segment, had achieved a record sales of approximately 4.1 million units in the last quarter of 2007 which were mainly from Alcatel brand.

In the PRC market, the Group faced intensified competition from the liberalization of the market. The Group relaunched the Alcatel brand, in the second half of the year, to the China market with a strategic two-pronged approach to address the varying needs of different domestic market segments.

The Group has extended the licensing agreement for the use of the Alcatel brand for another 10 years to 2024. This arrangement enables the Group to fully utilize the established market recognition of the Alcatel brand and to have longer term planning for the development of the brand in the emerging market and China.

Review of Operations

During year 2007, the Group sold approximately 11.9 million units of handsets, representing an increase of 3.5% when compared with that of the previous year.

The Group's performance continued to improve quarter-on-quarter, with its sales volume amounted to 4.1 million in the fourth quarter of 2007. The figure reflected 25% and 14% increases over those of the corresponding period last year and the previous quarter respectively.

Strong sales in the EMEA and LATAM markets had contributed to the Group's healthy full year results, with improved profit margins from the sale of Alcatel products.

In China, the Group experienced a decline in sales volume due to changing market environment and the Group's emphasis on clearing its inventory in the China market.

The Group effectively capitalized on its economies of scale and took advantage of its volume consumption to squeeze its raw material cost. The costs of its components for both low and high end phones dropped by about 2% to 3% during each quarter.

In addition, the Group continued to lower its cost through stringent budget control and effective logistic management. The operation of assembly plants in major markets also help to reduce its expenses and shorten delivery lead-time.

Sales volume breakdown by geographical locations

	Handset Unit Sales		
	For the year ended 31 December		
<i>('000 units)</i>	2007	2006	Change (%)
Overseas	10,831	9,936	+9%
PRC	1,079	1,566	-31%
Total	11,910	11,502	+4%

EMEA¹

The favorable sales of the recently launched U7 and C7 product series had led to a substantial upsurge in sales volume of the Group's EMEA operations. Unit shipment of EMEA in the year amounted to approximately 5.2 million, which reflected a 3% increase over that of 2006.

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<i>I:</i> <i>Note : The 7 S&M/CS centres are:</i>	<i>Europe, Middle East and Africa ("EMEA"); Latin America ("LATAM") Asia Pacific ("APAC") India("India") ODM("ODM") Alcatel and TCL brand in the PRC("Alcatel PRC") and("TCL PRC")</i>
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The introduction of entry level black and white product range succeeded in gaining grounds in Africa and Russia. The Group rolled out a new family of ultra-low-cost products, which had proven to be extremely successful in the emerging markets.

The Group managed to further develop relationship with leading global operators through the introduction of new Alcatel products. The U7C and C7C had been selected as signature products of the Orange Group. Other operators such as Vodafone and T-Moblie had also been attracted by the new Alcatel products. The cross-over project with Elle in Europe had provided a new collaboration platform for the Group, in addition to an endorsement to its stylish and fashionable brand image.

LATAM¹

With its strong partnership with the two largest operators in the LATAM, the Group continued to strengthen its position in the Central and South American markets.

LATAM operations achieved a sales volume of approximately 5.2 million, which was 10% more than that of the previous year .The increase mainly came from additional sales to Brazil and the USA.

Introduction of U7 and C7 families in the fourth quarter had pushed up the sales volume and further driven the profitability of the LATAM market. The Group managed to strengthen its presence in Brazil, the USA and Central America. However, the profit margin of the LATAM operations retreated as a result of lower ASP and delay in the launch of new products.

The inauguration of the sub-contracted assembly plant in Juarez, Mexico in the fourth quarter of the year, allowed the Group to further reduce costs through savings from transportation and inventory.

The PRC¹

During the year, the aggregated sales volume of TCL brand and Alcatel brand handsets in the PRC amounted to around 1.1million units.

The PRC market was characterized by severe competition with a range of international and domestic suppliers. The competition was intensified by the deregulation of the domestic market.

To broaden its sales channel, the Group has engaged one large distributor as TCL brand’s national distribution platform. In addition, the Group has established direct relationship with large and medium size retail chains.

Alcatel brand was re-launched in the China market during the second half of the year after the Group’s successful extension of the licensing agreement for the Alcatel brand.

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<p><i>I:</i> <i>Note : The 7 S&M/CS centres are:</i></p>	<p><i>Europe, Middle East and Africa (“EMEA”);</i> <i>Latin America (“LATAM”)</i> <i>Asia Pacific (“APAC”)</i> <i>India (“India”)</i> <i>ODM (“ODM”)</i> <i>Alcatel and TCL brand in the PRC (“Alcatel PRC”) and (“TCL PRC”)</i></p>
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Other Markets

Five new CDMA products were introduced during the year. The Group had been actively seeking business opportunities with major operators in various markets. A total of 250,000 units of CDMA phone were sold in 2007. The figure was almost twice more than that of 2006. With favorable initial response to Alcatel CDMA products from the operators, the Group has been working to explore the markets in Mainland China, Venezuela, Ukraine and Poland.

Sales volume in the Group's APAC¹ market remained stable. The Group succeeded in establishing business relations with operators in Taiwan and Israel during the year.

In order to secure a bridgehead in the Indian market, the Group had adopted an aggressive pricing strategy and had achieved initial success in selling its entry level and colour camera phones to this market.

Having secured its first order from India in the fourth quarter, and capitalizing on its favorable relationship with two large operators, the Group has entered into distributor agreement in the country to accelerate its penetration of the market.

To fully utilize its R&D and manufacturing capacities, the Group is seeking to establish collaboration relationship with key operators for the provision of ODM services. The Group is expecting to develop this new line of operation into an independent profit centre to generate additional revenue stream.

Product Development

10 new Alcatel handset models and 30 TCL handset models were launched in 2007.

The Group's development of Alcatel products emphasizes on the creation of flexibility for the accommodation of personalization design concept. New products in the pipeline include three major product series each featuring special characteristics for different consumer needs.

New products developed under the TCL brand included a walkie talkie phone, a music phone applying NXP MP3 solutions, a mobile TV phone and a GPS phone. There was also a whole series of China chic products featuring "Fashion for Female" developed with the support of an Italy design team.

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<i>I:</i> <i>Note : The 7 S&M/CS centres are:</i>	<i>Europe, Middle East and Africa ("EMEA");</i> <i>Latin America ("LATAM")</i> <i>Asia Pacific ("APAC")</i> <i>India ("India")</i> <i>ODM ("ODM")</i> <i>Alcatel and TCL brand in the PRC ("Alcatel PRC") and ("TCL PRC")</i>
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FUTURE OUTLOOK

With the world market continued to expand and the astonishing development in demand from the emerging market, in particular LATAM, Africa and India, the Group expects to further enhance its sales volume.

The Group aims to generate one third of its sales from the China market, through the retrenching of the TCL brand and the relaunch of the Alcatel brand.

In China, the Group has begun the shipment of BlackBerry manufactured under the Alcatel brand. This new product line will not only broaden the Group's revenue base, but also further enhance the Alcatel brand awareness in the China market: Following the consolidation of this domestic sales network, and the direct sales arrangement with local retail chains, the Group aims to further strengthen its sales effort with the support of orchestrated marketing campaign.

The Group expects its strong sales momentum in the fourth quarter will continue into the first half of 2008 in EMEA and LATAM markets. The introduction of Alcatel products targeting at the ultra low cost segment is expected to broaden the Group's sales to these markets.

The favorable market response to its CDMA products will open up new market opportunity for the Group.

The Group plans to launch 15 models of Alcatel products and 52 models of TCL products in 2008. To maximize the impact of new product launch, the Group targets to introduce most of its new products in the first half of the year.

Supporting its new product programme and the expansion in EMEA, LATAM and other new markets, the Group will continue to enhance its capacity and efficiency.

The Group's sales target for the year 2008 is 16 million units. The Group strives to accomplish its objective of achieving a 25% to 30% growth in sales volume with its ASP maintaining at a stable level.

Financial Review

Results

For the year ended 31 December 2007, the Group's audited consolidated revenue amounted to HK\$4,971 million (2006: HK\$5,502 million), representing a year-on-year decrease of 10% as compared to last year.

The Group's gross profit margin rose to 17% 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\$148 million and HK\$33 million respectively (2006: EBITDA and profit attributable to shareholders was HK\$153 million and HK\$15 million respectively). Profit before the effects of convertible bonds² is HK\$52 million which is 246% increase as compared with 2006. Basic earnings per share was HK\$0.5 cents (2006: basic earnings per share were HK 0.3 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 23 days (same period 2006: 23 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivable turnover was 75 days (same period 2006: 91 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 year ended 31 December 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.

2: Note :	<i>The effects of Convertible Bonds included the changes in fair value of the derivative component of Convertible Bonds and difference in interest on Convertible Bonds calculated between Yield to Maturity and Effective Interest Rate.</i>
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Fund Raising (continued)

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\$0.31 as at 31 December 2007, the fair value of the derivative component in respect of the Convertible Bonds has increased and therefore resulted in an unrealised loss on changes of fair value of derivative component of Convertible Bonds amounting to HK\$10 million recognised in the income statement. The unrealised loss 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 year ended 31 December 2007.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the year. The cash and cash equivalents balances as at 31 December 2007 amounted to HK\$709 million, of which 74% were in Renminbi, 17% in US dollars, 5% in Euro and 4% in Hong Kong dollars & other currencies for the operations. The Group's financial position remains healthy, with total assets of HK\$4,317 million. The Group has a gearing ratio of 33% at the end of the year (31 December 2006: 13%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings (including those interest-bearing borrowings for RMB arbitrage) over total assets.

Pledge of Deposits

Deposit balance of approximately HK\$959 million (31 December 2006: HK\$36,603,000) represented the pledged deposit for certain RMB arbitrage of approximately HK\$780 million and retention guarantee for factored trade receivables of approximately HK\$179 million.

Capital Commitment and Contingent Liabilities

As at 31 December 2007, the Group had no capital commitments of contracted, but not provided for. (31 December 2006: nil).

The Group had the no contingent liabilities for the year ended 31 December 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 3,940 employees as at 31 December 2007. Total staff costs for the year under review were approximately HK\$276 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 year ended 31 December 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 audited financial results 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 Mr. Lau Siu Ki (Chairman), Mr. Shi Cuiming, independent non-executive directors of the Company, and Mr. Bo Lianming, a non-executive director of the Company.

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

Hong Kong

29 February 2008

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