



# TCL Communication Technology Holdings Limited

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

## RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2008

<b>FINANCIAL HIGHLIGHTS</b>			
<i>Unaudited results for the three months ended 31 March</i>			
	<b>2008</b> <b>(HK\$ million)</b>	2007 (HK\$ million)	<b>Change</b>
Turnover	<b>1,214</b>	1,019	+19%
Gross Profit	<b>214</b>	170	+26%
EBITDA	<b>53</b>	28	+89%
Net profit before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds	<b>1</b>	2	N/A
Changes in fair value of the derivative component of convertible bonds	<b>29</b>	-	N/A
Interest on convertible bonds	<b>(10)</b>	-	N/A
Profit Attributable to Equity Holders of the Parent	<b>20</b>	2	+900%
Basic Earnings per share (HK cents)	<b>0.28</b>	0.03	+0.25

### OPERATIONAL HIGHLIGHTS

- **Total number of handsets sold reached 3.3 million in the first quarter of 2008, representing an increase 56% from that of 2007.**
- **Achieved a gross profit of 18% in 2008, remain profitable for eighth consecutive quarters.**
- **Net profit before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds was HK\$1 million in the first quarter of 2008.**

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 the three months ended 31 March 2008, 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**

		<b>Three months ended</b>	
		<b>31 March</b>	
	Notes	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 <b>(Unaudited)</b> <b>HK\$'000</b> <b>(Restated)</b>
REVENUE	3	<b>1,214,339</b>	1,018,541
Cost of sales		<b>(999,934)</b>	(848,159)
Gross profit		<b>214,405</b>	170,382
Other income and gains	3	<b>22,786</b>	8,130
Research and development expenses		<b>(41,386)</b>	(12,034)
Selling and distribution costs		<b>(87,673)</b>	(73,223)
Administrative expenses		<b>(101,420)</b>	(73,328)
Other operating expenses		<b>(456)</b>	(858)
Finance costs excluding interest on convertible bonds	5	<b>(5,221)</b>	(5,894)
Share of losses of an associate		-	(10,318)
Share of losses of a jointly controlled entity		<b>(208)</b>	-
		<b>827</b>	2,857
Changes in fair value of the derivative component of convertible bonds		<b>29,418</b>	-
Interest on convertible bonds	5	<b>(9,949)</b>	-
PROFIT BEFORE TAX	4	<b>20,296</b>	2,857
Tax	6	<b>(126)</b>	(833)
PROFIT FOR THE YEAR		<b>20,170</b>	2,024
Attributable to:			
Equity holders of the parent		<b>20,170</b>	2,024
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK Cents)	7		
Basic		<b>0.28</b>	0.03
Diluted		<b>0.28</b>	0.03

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>31 March 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>238,139</b>	252,934
Prepaid land lease payments		<b>16,954</b>	17,137
Intangible assets		<b>53,111</b>	38,997
Deferred tax assets		<b>35,221</b>	34,437
Goodwill		<b>137,820</b>	137,820
Available-for-sale investment		<b>20,207</b>	20,207
Interest in a jointly controlled entity		<b>5,127</b>	5,340
Other non-current assets		<b>862</b>	802
		<hr/>	<hr/>
Total non-current assets		<b>507,441</b>	507,674
<b>CURRENT ASSETS</b>			
Inventories		<b>372,360</b>	461,495
Trade receivables	8	<b>713,689</b>	1,015,407
Factored trade receivables		<b>215,984</b>	199,652
Notes receivable		<b>76,191</b>	67,061
Prepayments, deposits and other receivables		<b>424,876</b>	329,238
Due from related companies		<b>104,789</b>	35,630
Derivative financial instruments		<b>474</b>	-
Tax recoverable		<b>31,402</b>	33,210
Pledged deposits		<b>1,708,700</b>	958,738
Cash and cash equivalents		<b>585,587</b>	708,716
		<hr/>	<hr/>
Total current assets		<b>4,234,052</b>	3,809,147
<b>CURRENT LIABILITIES</b>			
Interest bearing bank borrowings		<b>1,441,744</b>	838,791
Trade and notes payables	9	<b>964,235</b>	1,052,376
Bank advances on discounted notes receivable and factored trade receivables		<b>245,947</b>	199,652
Forward contracts		<b>-</b>	9,495
Tax payable		<b>233</b>	1,724
Other payables and accruals		<b>490,771</b>	551,654
Provision for warranties		<b>79,978</b>	71,358
Due to related companies		<b>90,907</b>	167,842
		<hr/>	<hr/>
Total current liabilities		<b>3,313,815</b>	2,892,892
<b>NET CURRENT ASSETS</b>		<hr/> <b>920,237</b> <hr/>	<hr/> 916,255 <hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>1,427,678</b> <hr/>	<hr/> 1,423,929 <hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

		<b>31 March 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
	Notes		
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b><u>1,427,678</u></b>	<u>1,423,929</u>
<b>NON-CURRENT LIABILITIES</b>			
Retirement indemnities		<b>1,807</b>	1,691
Long service medals		<b>1,024</b>	977
Convertible bonds	10	<b><u>350,011</u></b>	<u>368,838</u>
Total non-current liabilities		<b><u>352,842</u></b>	<u>371,506</u>
Net assets		<b><u>1,074,836</u></b>	<u>1,052,423</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	11	<b>714,974</b>	718,689
Shares held for Share Award Scheme		<b>(54,565)</b>	(9,570)
Reserves		<b><u>414,427</u></b>	<u>343,304</u>
Total equity		<b><u>1,074,836</u></b>	<u>1,052,423</u>

## Notes:

### 1. ACCOUNTING POLICIES

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, derivative financial instruments, 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. 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 2007.

### 2. 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 table present revenue for the Group’s geographical segments:

	Europe		Latin America		The PRC (including Hong Kong)		Consolidated	
	Three months ended 31 March		Three months ended 31 March		Three months ended 31 March		Three months ended 31 March	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue:								
Sales to external customers	<u>276,862</u>	<u>445,137</u>	<u>149,246</u>	<u>244,383</u>	<u>788,231</u>	<u>329,021</u>	<u>1,214,339</u>	<u>1,018,541</u>

### 3. REVENUE, OTHER INCOME AND GAINS

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

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

	For the three months ended 31 March	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of mobile phones and related components	<u>1,214,339</u>	<u>1,018,541</u>
<b>Other income and gains</b>		
Interest income	3,646	1,528
VAT refund #	5,695	-
Value-added service income	2,003	202
Exchange gain, net	10,141	3,478
Gain on disposal of items of property, plant and equipment	-	2,203
Others	<u>1,301</u>	<u>719</u>
<b>Other income and gains</b>	<u>22,786</u>	<u>8,130</u>

# During the three months ended 31 March 2008, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.

### 4. PROFIT BEFORE TAX

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

	For the three months ended 31 March	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Depreciation	19,827	18,793
Prepaid land lease recognised	183	134
Amortisation of computer software and intellectual property	1,230	1,608
Research and development costs:		
Deferred expenditure amortised	6,419	-
Current period expenditure	34,967	12,034
Write back of trade receivables	-	(1,628)
Gain on disposal of items of property, plant and equipment	<u>-</u>	<u>(2,203)</u>

## 5. FINANCE COSTS

	For the three months ended 31 March	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank loans, and other loans wholly repayable within five years	2,662	2,440
Interest on discounted notes and factored trade receivable	2,559	2,085
Interest on convertible notes	-	1,369
Finance costs excluding interest on convertible bonds	5,221	5,894
Interest on convertible bonds*	9,949	-
Total finance costs	<u>15,170</u>	<u>5,894</u>

\* The yield to maturity of the convertible bonds is 5.709%. According to the HKAS39 Financial Instruments: Recognition and Measurement, the effective interest rate of the convertible bonds is 15%.

## 6. TAX

	For the three months ended 31 March	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Current period provision:		
The PRC	5	-
Mexico	-	833
Brazil	121	-
Tax charge for the period	<u>126</u>	<u>833</u>

No Hong Kong profits tax has been provided (2007: 17.5%) since no assessable profit arose in Hong Kong during the period. 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. TCL Mobile will be subject to a national income tax rate of 25% from year 2008 onwards.

## **6. 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 and 2008.

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 during the period (2007: Nil).

Profits tax has been provided in the PRC as taxable income arose during the period.

During 2007 and 2008, 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 and 2007 average specific assets balances respectively. 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.

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. Profits tax has been provided in Brazil as taxable income arose during the period (2007: Nil).

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

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

	<b>For the three months ended 31 March</b>	
	<b>2008 (Unaudited) HK\$'000</b>	<b>2007 (Unaudited) HK\$'000</b>
<u>Profit</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>20,170</u>	<u>2,024</u>
	<b>Number of shares</b>	
<u>Shares</u>	<b>2008</b>	<b>2007</b>
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>7,180,286,865</b>	5,940,795,948
Effect of diluted weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options	<u>61,567,930</u>	<u>59,615,700</u>
	<u><b>7,241,854,795</b></u>	<u>6,000,411,648</u>

The calculation of the diluted earnings per share for the three months ended 31 March 2008 has also taken into account the convertible bonds and share options outstanding during the period. Since the exercise price of certain share options during the period was lower than the fair market value of the ordinary shares, the share options outstanding during the period 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 for the three months ended 31 March 2008.

## 8. TRADE RECEIVABLES

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

	<b>31 March 2008 (Unaudited) HK\$'000</b>	<b>31 December 2007 (Audited) HK\$'000</b>
Within 3 months	<b>544,436</b>	798,624
4 to 12 months	<b>153,072</b>	213,981
Over 12 months	<u>23,842</u>	<u>10,169</u>
	<b>721,350</b>	1,022,774
Impairment loss of trade receivables	<u>(7,661)</u>	<u>(7,367)</u>
	<u><b>713,689</b></u>	<u>1,015,407</u>

## 9. 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:

	<b>31 March 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Within 6 months	<b>946,034</b>	1,050,623
7 to 12 months	<b>15,748</b>	1,251
More than 1 year	<b>2,453</b>	502
	<b>964,235</b>	1,052,376

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.

## 10. 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.

## 10. 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 three months ended 31 March 2008, 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

	<b><u>Parameter</u></b>	<b>2 April 2007</b>	<b>31 March 2008</b>
a)	Bond price	US\$867.22	US\$1,022.11
b)	Exercise price	US\$1,218.05	US\$1,151.55
c)	Risk-free rate	3.923%	1.451%
d)	Expected life	42 months	30 months
e)	Volatility	18.894%	53.848%

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

	<b><u>Parameter</u></b>	<b>1 June 2007</b>	<b>31 March 2008</b>
a)	Bond price	US\$861.94	US\$1,022.11
b)	Exercise price	US\$1,206.83	US\$1,151.55
c)	Risk-free rate	4.446%	1.451%
d)	Expected life	40 months	30 months
e)	Volatility	20.906%	53.848%

## 10. CONVERTIBLE BONDS (continued)

Fair value of conversion option (continued)

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

	<b><u>Parameter</u></b>	<b>2 April 2007</b>	<b>31 March 2008</b>
a)	Stock price	HK\$0.247	HK\$0.30
b)	Exercise price	HK\$0.3275	HK\$0.3275
c)	Risk-free rate	3.850%	1.315%
d)	Expected life	30 months	24 months
e)	Volatility	48.330%	47.720%

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

	<b><u>Parameter</u></b>	<b>1 June 2007</b>	<b>31 March 2008</b>
a)	Stock price	HK\$0.355	HK\$0.30
b)	Exercise price	HK\$0.3275	HK\$0.3275
c)	Risk-free rate	4.401%	1.315%
d)	Expected life	29 months	24 months
e)	Volatility	52.02%	47.720%

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

	<b><u>Parameter</u></b>	<b>2 April 2007</b>	<b>31 March 2008</b>
a)	Bond price	US\$867.22	US\$1,022.11
b)	Exercise price	US\$1,170	US\$1,170
c)	Risk-free rate	3.888%	1.320%
d)	Expected life	36 months	24 months
e)	Volatility	19.551%	70.303%

## 10. CONVERTIBLE BONDS (continued)

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

	<b>Parameter</b>	<b>1 June 2007</b>	<b>31 March 2008</b>
a)	Bond price	US\$861.94	US\$1,022.11
b)	Exercise price	US\$1,170	US\$1,170
c)	Risk-free rate	4.423%	1.320%
d)	Expected life	34 months	24 months
e)	Volatility	20.906%	70.303%

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 1 January 2008 to 31 March 2008 resulted in a fair value gain of approximately HK\$29 million, which has been recorded as the “Changes in fair value of the derivative component of Convertible Bonds” in the income statement for the three months ended 31 March 2008.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 31 March 2008 are as follows:

	<b>US\$'000</b>	<b>Equivalent to HK\$'000</b>
Liability component	27,877	216,917
Derivative component	17,105	133,094
Carrying value of convertible bonds	44,982	350,011
Number of conversion shares at the issuance date (shares)		1,061,532,214
Conversion price at the issuance date and balance sheet date		0.3275

Conversion of US\$500,000 of the Convertible Bonds has occurred up to 31 March 2008.

## 11. SHARE CAPITAL

	<b>No. of shares</b>	<b>Issued share capital HK\$'000</b>	<b>Share premium HK\$'000</b>
Authorised :			
Ordinary shares of HK\$0.1 each at 1 January 2008 and 31 March 2008	<u>20,000,000,000</u>	<u>2,000,000</u>	
Issued and fully paid or credited as fully paid:			
Ordinary shares of HK\$0.1 each at 1 January 2008	7,186,894,710	718,689	1,584,738
Share options exercised (a)	25,593,999	2,559	3,076
Shares repurchased (b)	<u>(62,748,000)</u>	<u>(6,274)</u>	<u>(13,574)</u>
Ordinary shares of HK\$0.1 each at 31 March 2008	<u>7,149,740,709</u>	<u>714,974</u>	<u>1,574,240</u>

## 11. SHARE CAPITAL (continued)

The movement of share capital during the period was listed as below:

- (a) 25,593,999 share options were exercised during 2008 at the subscription price ranging from HK\$0.2108 to HK\$0.232 per share, resulting in the issue of 25,593,999 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$2,559,000.
- (b) During the three months ended 31 March 2008, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium of the repurchase was charged against share premium.

Details of the repurchase of shares are summarised as follows:

Date of repurchase	Number of shares repurchased	Repurchase price per share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
3 March 2008	1,088,000	0.28	0.275	303
5 March 2008	34,000	0.31	0.31	10
6 March 2008	10,320,000	0.32	0.315	3,283
7 March 2008	1,586,000	0.32	0.315	499
10 March 2008	4,304,000	0.32	0.305	1,334
11 March 2008	12,836,000	0.325	0.31	4,110
12 March 2008	5,792,000	0.33	0.32	1,881
14 March 2008	68,000	0.33	0.33	22
17 March 2008	2,158,000	0.325	0.32	691
18 March 2008	7,944,000	0.32	0.31	2,496
19 March 2008	4,434,000	0.32	0.31	1,394
20 March 2008	2,932,000	0.315	0.31	909
25 March 2008	4,332,000	0.32	0.315	1,365
26 March 2008	4,776,000	0.32	0.315	1,505
27 March 2008	116,000	0.32	0.315	37
28 March 2008	28,000	0.315	0.315	9
Total	<u>62,748,000</u>	0.33	0.275	<u>19,848</u>

## 12. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the conversion price of the Convertible Bonds has been adjusted from the current conversion price of HK\$0.3275 per share to HK\$0.32 per share with effect from 2 April 2008 in accordance with the terms and conditions of the Convertible Bonds.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry Overview**

First quarter is traditionally a low season for the mobile phone market. While the global market remained competitive, the developing countries and emerging markets had become a significant driving force for growth in sales volume, in particular for entry level products. With the first-tier manufacturers joining the scrambling for share in the emerging markets, there had been added pressure on average selling price (“ASP”) of entry level products

### **Business Review**

During the first quarter of 2008, the Group continued to achieve profit for the eighth consecutive quarters with favorable sales from overseas market, in particular the EMEA<sup>1</sup> and LATAM<sup>1</sup> markets, from where our 92% of the Group’s sales in the first quarter was derived.

One of the reasons for the remarkable performance of the EMEA market was the successful development of the African market, which was basically a virgin market with an enormous demand from first-time buyers. Capitalizing on its strong Alcatel brand recognition in the continent and the Group’s ability to provide competitively priced entry level products, the Group’s handsets had gained strong consumer acceptance in this market.

The Group also managed to strengthen its presence in other new markets such as India<sup>1</sup> and APAC<sup>1</sup> region.

To further enhance its brand awareness, the Group continued to participate in major international telecom events, and had taken part in the “Mobile World Congress” in Barcelona during the period under review

### **Review of Operations**

The Group sold a total of 3.3 million handsets in the first quarter of 2008. The amount represented a 56% growth from that of the corresponding period in 2007, but a 19% decline from that of the last quarter of 2007, due to seasonality factor of the mobile phone industry. The year-on-year increase in sales volume was attributable to strong sales performance under the Alcatel Brand in the EMEA and LATAM markets.

In addition to its regular stringent control on raw material procurement and effective logistic management, the Group persisted with its ongoing price negotiation with suppliers and had gained ground in further reduction in raw materials costs. The Group’s cost of components for both low and mid-end products continued to decline quarter by quarter.

Benefiting from cost reduction, profit margin of products under the Alcatel brand continued to improve.

Profit margin of TCL-branded products was under pressure of significant price-cut to clear the Group’s backlog. However, the measure enabled the Group to lower its inventory level to achieve a healthier balance sheet.

### Sales volume breakdown by geographical locations

	Handset Unit Sales		
	For the three months ended 31 March		
( <i>'000 units</i> )	2008	2007	Change (%)
Overseas	3,108	1,939	+60%
PRC	207	188	+10%
Total	3,315	2,127	+56%

#### EMEA

The EMEA market maintained its sales performance and reported a sales volume of 1.4 million handsets during the first quarter, and achieved a 44% growth from that of the corresponding period in 2007.

The increased sales volume was mainly derived from Africa, which has a strong demand for entry level handset from first-time purchasers.

The EMEA market average selling price (“ASP”) declined as a result of increased sales of entry level products to Africa. However, profit margin for the market remained stable year-on-year.

#### LATAM

LATAM operations achieved a sales volume of approximately 1.5 million, which was 74% higher than that of the same period last year, but reflected a 22% decline quarter-on-quarter, as first quarter was a traditional low season for the market, The first quarter sales volume exceeded the management’s target, benefiting from order from new customers in Dominican Republic and strong sales performance in Colombia.

The seasonal adjustment in the market’s average selling price (“ASP”) and reduction in sales volume from that of fourth quarter of 2007 led to a retreat in profit margin quarter-on-quarter.

The Group’s strong partnership with the two mobile phone operators in Latin America continued to support its expansion in this market, while the improved efficiency at its facility in Mexico helped to strengthen the Group’s supply chain.

## **The PRC<sup>1</sup>**

During the period under review, the sales volume of handsets in the PRC amounted to around 0.2 million units, representing increase of 10% from that of the corresponding quarter of 2007.

The relaunch of Alcatel brand to the PRC market in the second half of 2007, began to generate results in the period under review, with significant pick up in sales volume of Alcatel-branded products.

Six models under the Alcatel brand and four models under the TCL brand were introduced to PRC market during the first quarter of the year.

During the period under review, the Group's primary objective was to clear up the inventory of older model products. To expedite the inventory clearance, the Group adopted an aggressive price adjustment, and had thus impact on its profit margin. The impact was compounded by fewer new product launch during the period.

Shipment of BlackBerry handsets manufactured under the Alcatel brand to China Mobile continued during the first quarter. The product was launched by China Mobile with bundled services.

During the period, the Group has extended the sales and distribution channels with appointment of the provincial distributors in Sichuan and Yunnan, establishing cooperation with leading chains of specialized shopping malls, as well as engaging agencies for sales through TV network.

## **Other Markets**

Despite being a low season in the first quarter, the Group sold around 0.11 million units of CDMA phones which were more or less the same quantity as that of the fourth quarter of 2007. The beginning of shipment of entry MP3 phone helped to lift the ASP in the first quarter and sustain a higher profit margin.

The Group's APAC operations experience increase in sales volume quarter-on-quarter. In the first quarter, the APAC operations sold 0.18 million which was 103% more than that of the corresponding quarter of 2007.

Capitalizing on its initial success in the Indian market, the Group is actively seeking ODM<sup>1</sup> business opportunities in the subcontinent, in addition to its effort to strengthening connections with major operators in the market.

## **Product Development**

Six new Alcatel handset models and four TCL handset models were launched in the first quarter of 2008.

During the period, the Group finished the development of China Chic series mobile phone under the TCL brand featuring “Fashion for Female” segment, with full metallic frame and plane phone with 2.8’ QVGA display.

New products developed under the Alcatel brand included the first entry 3G product, which was selected by both Telefonica and Orange Group. The Group’s flagship product, the OT-V770 slim phone, has been earmarked for redesign in a cooperation with the world renowned brandname—PLAYBOY. OT-E206A has become the first Alcatel phone, chosen by Cingular, for tapping into the USA market, signifying Alcatel product quality’s compliance with the world’s strictest requirement.

## **FUTURE OUTLOOK**

The Group remains confidence in achieving its full year sales volume target of 16 million units. Gross profit margin is expected to improve with the introduction of new products in the second quarter, with ASP to maintain at a stable level.

It is expected that the PRC market remains to be tough while West European market demand is softening in the second quarter of the year. In addition, the impact of weak US dollar and strong Reminbi may affect the Group’s bottom line during the second quarter.

The Group plans to launch seven models under the Alcatel brand and eleven new models of TCL phone in the second quarter.

The introduction of new models addressing the market’s demand for fashionable design and unique functions, supported by expanded sales channels, the Group is looking toward to a better performance in the PRC market.

The Group’s strong presence in the supply of entry level as well as mid-end phones, and its established relationship with local distributors and operators will support its further penetration in the overseas markets, in particular in those relatively untapped developing economies.

## FINANCIAL REVIEW

### Results

For the three months ended 31 March 2008, the Group's unaudited consolidated revenue amounted to HK\$1,214 million (2007: HK\$1,019 million), representing a year-on-year increase of 19% as compared to the same period last year.

The Group's gross profit margin rose to 18% from 17% 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\$53 million and HK\$20 million respectively (2007: EBITDA and profit attributable to shareholders was HK\$28 million and HK\$2 million respectively). Profit before the effects of Convertible Bonds<sup>2</sup> is HK\$1 million which is 50% decrease as compared with 2007. Basic earnings per share was HK\$0.28 cents (2007: basic earnings per share were HK\$0.03 cents).

### Inventory

The Group's inventory (only included finished goods) turnover period was 13 days (same period 2007: 27 days).

### Trade Receivables

Credit period was 60-90 days on average and the trade receivable turnover was 70 days (same period 2007: 91 days).

### Significant Investments and Acquisition

There was no significant investment and acquisition for the three months ended 31 March 2008.

### Fund Raising

There was no fund raising for the three months ended 31 March 2008.

### Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period. The cash and cash equivalents balances as at 31 March 2008 amounted to HK\$586 million, of which 24% were in Renminbi, 60% in US dollars, 6% in Euro and 10% in Hong Kong dollars & other currencies for the operations. The Group's financial position remains healthy, with total assets of HK\$4,741 million. The Group has a gearing ratio of 12.6% at 31 March 2008 (31 March 2007: 10.3%) under review. The gearing ratio is calculated based on the Group's total bank advances on discounted notes receivable and factored trade receivables and Convertible Bonds over total assets.

### Pledge of Deposits

Deposit balance of approximately HK\$1,709 million (31 December 2007: HK\$959 million) represented the pledged deposit for certain RMB arbitrage of approximately HK\$1,595 million and retention guarantee for factored trade receivables of approximately HK\$114 million.

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Note :	<i>The effects of Convertible Bonds included the changes in fair value of the derivative component of Convertible Bonds and interest.</i>

### Capital Commitment and Contingent Liabilities

As at 31 March 2008, the Group had no capital commitments of contracted, but not provided for.(31 December 2007: Nil).

The Group had no contingent liabilities as at 31 March 2008.

### 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 4,600 employees as at 31 March 2008. Total staff costs for the period under review were approximately HK\$89 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company repurchased 62,748,000 shares on The Stock Exchange of Hong Kong Limited and these shares were subsequently cancelled by the Company. Further details of these transactions are set out as below:

Date of repurchase	Number of shares repurchased	Repurchase price per share		Total consideration HK\$'000
		Highest HK\$	Lowest HK\$	
3 March 2008	1,088,000	0.28	0.275	303
5 March 2008	34,000	0.31	0.31	10
6 March 2008	10,320,000	0.32	0.315	3,283
7 March 2008	1,586,000	0.32	0.315	499
10 March 2008	4,304,000	0.315	0.305	1,334
11 March 2008	12,836,000	0.325	0.31	4,110
12 March 2008	5,792,000	0.33	0.32	1,881
14 March 2008	68,000	0.33	0.33	22
17 March 2008	2,158,000	0.325	0.32	691
18 March 2008	7,944,000	0.32	0.31	2,496
19 March 2008	4,434,000	0.32	0.31	1,394
20 March 2008	2,932,000	0.315	0.31	909
25 March 2008	4,332,000	0.32	0.315	1,365
26 March 2008	4,776,000	0.32	0.315	1,505
27 March 2008	116,000	0.32	0.315	37
28 March 2008	28,000	0.315	0.315	9
Total	<u>62,748,000</u>	0.33	0.275	<u>19,848</u>

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the three months ended 31 March 2008, complied fully with the codes set out in the Code of Corporate Governance Practices (the “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 as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Specific enquiry have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions during the period under review.

### **AUDIT COMMITTEE**

The unaudited consolidated results for the three months ended 31 March 2008 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 April 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.*