# TCL Communication Technology Holdings Limited

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

**RESULTS ANNOUNCEMENT**

**FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2008**

**FINANCIAL HIGHLIGHTS**

*Unaudited results for the six months ended 30 June*

| | **2008 (HK$ million)** | 2007 (HK$ million) | **Change** |
|---|---|---|---|
| Turnover | **2,340** | 2,077 | +13% |
| Gross Profit | **438** | 323 | +36% |
| EBITDA before effect of convertible bonds | **61** | 67 | -9% |
| Net profit before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds | **16** | 13 | +23% |
| Changes in fair value of the derivative component of convertible bonds | **116** | (7) | N/A |
| Interest on convertible bonds | **(20)** | (4) | N/A |
| Profit Attributable to Equity Holders of the Parent | **112** | 2 | +5,500% |
| Basic Earnings per share (HK cents) | **1.58** | 0.04 | +3,850% |

- Total number of handsets sold reached 6.7 million in the first half of 2008, representing an increase of 60% over the corresponding period in 2007.
- The goal for overseas market has achieved, with total number of handsets reached 6.1 million units in the first half of 2008.
- Achieved a gross profit of 19% in the review period, remained profitable for ninth consecutive quarters.
- Profit before changes in fair value of the derivative component of convertible bonds and interest on convertible bonds was HK$16 million in the second quarter of 2008.

The Board of Directors of TCL Communication Technology Holdings Limited ("TCT" or the ''Company'') announced the unaudited consolidated interim results and financial position of the Company and its subsidiaries (the ''Group'') for three months and six months ended 30 June 2008, with comparative figures for the same period last year as follows:

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

***CONDENSED CONSOLIDATED INCOME STATEMENT***

| | Notes | **Six months ended 30 2008 (Unaudited) HK$'000** | Six months ended 30 2007 (Unaudited) HK$'000 | **Three months ended 30 June 2008 (Unaudited) HK$'000** | Three months ended 30 June 2007 (Unaudited) HK$'000 |
|---|---|---|---|---|---|
| REVENUE | 2 | **2,340,047** | 2,077,287 | **1,125,708** | 1,058,746 |
| Cost of sales | | **(1,901,997)** | (1,754,650) | **(902,063)** | (906,491) |
| Gross profit | | **438,050** | 322,637 | **223,645** | 152,255 |
| Other income and gains | 3 | **76,285** | 28,517 | **53,499** | 20,387 |
| Research and development costs | | **(99,414)** | (15,825) | **(58,028)** | (3,791) |
| Selling and distribution costs | | **(199,821)** | (148,951) | **(112,148)** | (75,728) |
| Administrative expenses | | **(177,232)** | (143,119) | **(75,812)** | (69,791) |
| Other operating expenses | | **(3,922)** | (3,480) | **(3,466)** | (2,622) |
| Finance costs excluding interest on convertible bonds | 4 | **(16,823)** | (10,980) | **(11,602)** | (5,086) |
| Share of losses of an associate | | - | (14,462) | **-** | (4,144) |
| Share of losses of a jointly controlled entity | | **(386)** | - | **(178)** | - |
| | | **16,737** | 14,337 | **15,910** | 11,480 |
| Changes in fair value of the derivative component of convertible bonds | 11 | **115,708** | (6,793) | **86,290** | (6,793) |
| Interest on convertible bonds | 4 | **(20,161)** | (3,677) | **(10,212)** | (3,677) |
| PROFIT BEFORE TAX | 5 | **112,284** | 3,867 | **91,988** | 1,010 |
| Tax | 6 | **(613)** | (1,773) | **(487)** | (940) |
| PROFIT FOR THE PERIOD | | **111,671** | 2,094 | **91,501** | 70 |
| Attribute to: | | | | | |
| Equity holders of the parent | | **111,671** | 2,094 | **91,501** | 70 |
| DIVIDENDS | | | | | |
| Interim | 7 | **-** | - | **-** | - |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents) | 8 | | | | |
| Basic | | **1.58** | 0.04 | **1.29** | - |
| Diluted | | **1.57** | 0.03 | **1.29** | - |

## *CONDENSED CONSOLIDATED BALANCE SHEET*

| | Notes | **30 June 2008 (Unaudited) HK$'000** | 31 December 2007 (Audited) HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **253,345** | 252,934 |
| Prepaid land lease payments | | **16,771** | 17,137 |
| Intangible assets | | **66,933** | 38,997 |
| Deferred tax assets | | **36,188** | 34,437 |
| Goodwill | | **137,820** | 137,820 |
| Available-for-sale investment | | **20,244** | 20,207 |
| Interest in a jointly controlled entity | | **4,941** | 5,340 |
| Other non-current assets | | **872** | 802 |
| Total non-current assets | | **537,114** | 507,674 |
| CURRENT ASSETS | | | |
| Inventories | | **425,090** | 461,495 |
| Trade receivables | 9 | **829,256** | 1,015,407 |
| Factored trade receivables | | **211,234** | 199,652 |
| Notes receivable | | **23,469** | 67,061 |
| Prepayments, deposits and other receivables | | **328,321** | 329,238 |
| Due from related companies | | **126,490** | 35,630 |
| Derivative financial instruments | | **24,087** | - |
| Tax recoverable | | **32,701** | 33,210 |
| Pledged deposits | | **2,444,081** | 958,738 |
| Cash and cash equivalents | | **504,724** | 708,716 |
| Total current assets | | **4,949,453** | 3,809,147 |
| CURRENT LIABILITIES | | | |
| Interest bearing bank borrowings | | **2,181,631** | 838,791 |
| Trade and notes payables | 10 | **858,596** | 1,052,376 |
| Bank advances on discounted notes receivable and factored trade receivables | | **211,234** | 199,652 |
| Forward contracts | | **-** | 9,495 |
| Tax payable | | **-** | 1,724 |
| Other payables and accruals | | **535,144** | 551,654 |
| Provision for warranties | | **69,015** | 71,358 |
| Due to related companies | | **162,644** | 167,842 |
| Total current liabilities | | **4,018,264** | 2,892,892 |
| NET CURRENT ASSETS | | **931,189** | 916,255 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,468,303** | 1,423,929 |

## *CONDENSED CONSOLIDATED BALANCE SHEET (Continued)*

| | Notes | **30 June 2008 (Unaudited) HK$'000** | 31 December 2007 (Audited) HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,468,303** | 1,423,929 |
| NON-CURRENT LIABILITIES | | | |
| Retirement indemnities | | **1,811** | 1,691 |
| Long service medals | | **1,026** | 977 |
| Convertible bonds | 11 | **274,544** | 368,838 |
| Total non-current liabilities | | **277,381** | 371,506 |
| Net assets | | **1,190,922** | 1,052,423 |
| EQUITY | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | | **715,050** | 718,689 |
| Shares held for Share Award Scheme | | **(54,561)** | (9,570) |
| Reserves | | **530,433** | 343,304 |
| Total equity | | **1,190,922** | 1,052,423 |

**Notes:**

## 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

| | |
|---|---|
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19-The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction |

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no defined benefit scheme, HK(IFRIC)-Int 14 is not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

## 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 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 Six months ended 30 June** | | **Latin America Six months ended 30 June** | | **The PRC (including Hong Kong) Six months ended 30 June** | | **Consolidated Six months ended 30 June** | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **885,986** | 819,623 | **1,073,461** | 717,779 | **380,600** | 539,885 | **2,340,047** | 2,077,287 |

## 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 six months ended 30 June** | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Revenue** | | |
| Sale of mobile phones and related components | **2,340,047** | 2,077,287 |
| **Other income and gains** | | |
| Interest income | **13,496** | 5,741 |
| Subsidy income | **-** | 12,135 |
| VAT refund# | **17,205** | - |
| Value-added services income | **3,605** | 2,204 |
| Exchange gain | **40,339** | 4,471 |
| Gains on disposal of property, plant and equipment | **-** | 1,805 |
| Others | **1,640** | 2,161 |
| | **76,285** | 28,517 |

# During the six months ended 30 June 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. FINANCE COSTS

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on bank loans, and other loans wholly repayable within five years | **5,162** | 5,785 |
| Interest on discounted notes and factored trade receivables | **11,661** | 2,441 |
| Interest on convertible notes | **-** | 2,754 |
| Finance costs excluding interest on convertible bonds | **16,823** | 10,980 |
| Interest on convertible bonds* | **20,161** | 3,677 |
| Total finance costs | **36,984** | 14,657 |

* 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% .

## 5. PROFIT BEFORE TAX

Profit before tax was determined after charging:

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Depreciation of property, plant and equipment | **38,532** | 39,375 |
| Prepaid land lease recognised | **366** | 278 |
| Amortisation of computer software and intellectual property | **2,380** | 7,774 |
| Research and development costs: | | |
| Deferred expenditure amortised | **19,325** | - |
| Current period expenditure | **80,089** | 15,825 |
| | **99,414** | 15,825 |
| Impairment loss/(write-back) of trade receivables | **2,307** | (571) |
| Gain on disposal of items of property, plant and equipment | **-** | (1,805) |

## 6. TAX

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| Group: | | |
| Current period provision: | | |
| The PRC | **33** | - |
| Mexico | **-** | 833 |
| Brazil | **-** | 940 |
| Deferred: | | |
| Mexico | **580** | - |
| Tax charge for the period | **613** | 1,773 |

No Hong Kong profits tax has been provided (2007: 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, 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.

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 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 SA de CV Limited was subject to tax on assets at a tax rate of 1.25% over 2006 and 2007 average specific assets balance respectively. This tax will be applied on certain current assets and on fixed assets of Mexican companies and foreigner's assets within Mexico to be transformed and returned out of Mexico and will be paid on an annual basis through monthly provisional payments.

## 6. TAX (continued)

T&A Mobile Phones-Comercio de Telefones Ltda is subject to 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 Article 220 and 221 of the Income Tax Regulation in Brazil. No profits tax has been provided in the Brazil as no taxable income arose during the period (2007: Nil).

## 7. DIVIDEND

The directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2008 (2007: Nil).

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

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **(Unaudited)** | (Unaudited) |
| | **HK$'000** | HK$'000 |
| **Profit** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations | **111,671** | 2,094 |

| | Number of shares | |
|---|---|---|
| | **2008** | 2007 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations | **7,085,835,624** | 5,944,113,843 |
| Effect of diluted weighted average number of ordinary shares: | | |
| Assumed issuance upon the exercise of share options | **31,238,054** | 99,070,092 |
| | **7,117,073,678** | 6,043,183,935 |

The calculation of the diluted earnings per share for the six months ended 30 June 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 six months ended 30 June 2008.

## 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 June 2008 (Unaudited) HK$'000** | 31 December 2007 (Unaudited) HK$'000 |
|---|---|---|
| Within 3 months | **702,036** | 798,624 |
| 4 to 12 months | **113,159** | 213,981 |
| Over 12 months | **25,860** | 10,169 |
| | **841,055** | 1,022,774 |
| Impairment loss of trade receivables | **(11,799)** | (7,367) |
| | **829,256** | 1,015,407 |

## 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 June 2008 (Unaudited) HK$'000** | 31 December 2007 (Audited) HK$'000 |
|---|---|---|
| Within 6 months | **827,984** | 1,050,623 |
| 7 to 12 months | **17,549** | 1,251 |
| More than 1 year | **13,063** | 502 |
| | **858,596** | 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.

## 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 US$27 million and US$18 million respectively (the "Convertible Bonds"). The five-year Convertible Bonds were issued with a conversion price of HK$0.3275 per share and will mature on 2 April 2012. The yield to maturity is 5.709%. The conversion price of the Convertible Bonds has been adjusted from HK$0.3275 per share to HK$0.32 per share with effect from 2 April 2008 in accordance with the terms and conditions of Convertible Bonds.

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

## 11. CONVERTIBLE BONDS (continued)

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 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 six months ended 30 June 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

| | **Parameter** | **2 April 2007** | **30 June 2008** |
|---|---|---|---|
| a) | Bond Price | US$867.22 | US$ 995.19 |
| b) | Exercise Price | US$1,218.05 | US$ 1,135.50 |
| c) | Risk-free Rate | 3.923% | 2.634% |
| d) | Expected Life | 42 months | 27 months |
| e) | Volatility | 18.894% | 81.545% |

## 11. CONVERTIBLE BONDS (continued)

### Fair value of conversion option (continued)

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

| | Parameter | 1 June 2007 | 30 June 2008 |
|---|---|---|---|
| a) | Bond Price | US$861.94 | US$ 995.19 |
| b) | Exercise Price | US$1,206.83 | US$ 1,135.50 |
| c) | Risk-free Rate | 4.446% | 2.634% |
| d) | Expected Life | 40 months | 27 months |
| e) | Volatility | 20.906% | 81.545% |

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

| | Parameter | 2 April 2007 | 30 June 2008 |
|---|---|---|---|
| a) | Stock Price | HK$0.247 | HK$ 0.2010 |
| b) | Exercise Price | HK$0.3275 | HK$0.32 |
| c) | Risk-free Rate | 3.850% | 2.478% |
| d) | Expected Life | 30 months | 22 months |
| e) | Volatility | 48.330% | 46.66% |

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

| | Parameter | 1 June 2007 | 30 June 2008 |
|---|---|---|---|
| a) | Stock Price | HK$0.355 | HK$ 0.2010 |
| b) | Exercise Price | HK$0.3275 | HK$0.32 |
| c) | Risk-free Rate | 4.401% | 2.478% |
| d) | Expected Life | 29 months | 22 months |
| e) | Volatility | 52.02% | 46.66% |

## 11. CONVERTIBLE BONDS (continued)

**Fair value of conversion option (continued)**

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

| | **Parameter** | **2 April 2007** | **30 June 2008** |
|---|---|---|---|
| a) | Bond Price | US$867.22 | US$995.19 |
| b) | Exercise Price | US$1,170 | US$1,170 |
| c) | Risk-free Rate | 3.888% | 2.416% |
| d) | Expected Life | 36 months | 21 months |
| e) | Volatility | 19.551% | 81.545% |

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

| | **Parameter** | **1 June 2007** | **30 June 2008** |
|---|---|---|---|
| a) | Bond Price | US$861.94 | US$995.19 |
| b) | Exercise Price | US$1,170 | US$1,170 |
| c) | Risk-free Rate | 4.423% | 2.416% |
| d) | Expected Life | 34 months | 21 months |
| e) | Volatility | 20.906% | 81.545% |

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 30 June 2008 resulted in a fair value gain of approximately HK$115,708,000, which has been recorded as the "Changes in fair value of derivative component of Convertible Bonds" in the income statement for the six months ended 30 June 2008.

The carrying values of the derivative component and liability component of the Convertible Bonds as at 30 June 2008 are as follows:

| | **US$'000** | **Equivalent to HK$'000** |
|---|---|---|
| Liability component | 29,152 | 227,412 |
| Derivative component | 6,042 | 47,132 |
| Carrying value of convertible bonds | 35,194 | 274,544 |
| | | |
| Number of conversion shares at the issuance date (shares) | | 1,061,532,214 |
| Conversion price at the issuance date | | 0.3275 |
| Conversion price at the balance sheet date | | 0.32 |

Conversion of USD 500,000 of the Convertible Bonds has occurred up to 30 June 2008.

## 12. SHARE CAPITAL

| | No. of shares | Issued share capital HK$'000 | Share premium HK$'000 |
|---|---|---|---|
| Authorised : | | | |
| Ordinary shares of HK$0.1 each at 1 January 2008 and 30 June 2008 | 20,000,000,000 | 2,000,000 | |
| Issued and fully paid or credited as fully paid: | | | |
| Ordinary shares of HK$0.1 each at 1 January 2007 | 5,939,712,052 | 593,971 | 1,431,066 |
| Share options exercised | 19,825,330 | 1,982 | 4,408 |
| Convertible bonds converted | 11,927,328 | 1,193 | 2,714 |
| Subscription for new shares due to acquisition of a subsidiary | 1,215,430,000 | 121,543 | 146,550 |
| At 31 December 2007 and at 1 January 2008 | 7,186,894,710 | 718,689 | 1,584,738 |
| Share options exercised (a) | 26,351,999 | 2,635 | 5,953 |
| Shares repurchased (b) | (62,748,000) | (6,274) | (13,574) |
| At 30 June 2008 | 7,150,498,709 | 715,050 | 1,577,117 |

During the period, the following changes in the Company's share capital took place:

(a) 26,351,999 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 26,351,999 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$2,635,000.

## 12. SHARE CAPITAL (continued)

(b) During the six months ended 30 June 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 Highest HK$ | Lowest HK$ | Total consideration HK$'000 |
|---|---|---|---|---|
| 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 | 62,748,000 | 0.33 | 0.275 | 19,848 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

The global mobile handset market maintained double-digit growth in sales and remained relatively immune to a recession in the US and Western Europe as the bulk of growth in 2008 stemmed from emerging markets. The rapid development of emerging markets is becoming a new driving force in the global communications market.

With the global market continuing to be dominated by top five brands, average selling prices ("ASP") declined slightly due to keen competition and increased sales of entry products in the emerging markets.

Cutting-edge models featuring touch screen, TV tuner, GPS and high-resolution camera capabilities have become the purchasing motivation for mature markets, such as Europe and Japan. In the emerging markets, design continue to be the dominant factors for success in the entry level and the ultra low cost segment.

### Business Review

In the first half of 2008, the Group promoted and reorganized the Alcatel brand, making its handsets the premium choice for mobile handsets. It introduced a new corporate look, a new brand identity and approach to the Alcatel brand. The new approach is designed to project the image of Alcatel handsets as a rapidly expanding worldwide collection of products with stylish design, excellent quality and affordable pricing. It also reflects a confident and dynamic image of Alcatel handsets and reinforces its position as a leading innovative and quality brand of choice among handsets.

In the review period, the Group further strengthened its position in EMEA[1] and LATAM[1] markets. In terms of geographically expansion, the Group will continue to penetrate new emerging markets in Africa and the Indian Ocean. From a product point of view, it will extend product offer to include CDMA solutions to the new markets.

### Review of Operations

During the period under review, the Group's performance continued to improve, with global sales volume amounting to 6.7 million in the first half of 2008, representing an increase of 60% over the same period in 2007. This increase in volume was due to the good sales performance of the Alcatel brand in LATAM and EMEA. Their strong performance contributed positively to the Group's results in the period under review. Sales in the PRC remained under pressure due to higher competition, while sales in the EMEA and LATAM markets continued to be a revenue driver.

| | |
|---|---|
| *1:* | |
| *Note : The 7 S&M/CS centres are:* | *Europe, Middle East and Africa ("EMEA");*<br>*Latin America ("LATAM")*<br>*Asia Pacific ("APAC")*<br>*India("India")*<br>*ODM("ODM")*<br>*Alcatel and TCL brand in the PRC("Alcatel PRC") and("TCL PRC")* |

During the review period, the Group launched a number of new products. Among them were the U81 series, the ultra low cost phone equipped with FM radio function, the U8C series, an entry level with both FM radio and BT options, and the B82 series, a cost competitive phone with a camera. It is expected that sales of the new products could impact positively the Group's total sales in the coming third and fourth quarters, respectively.

The overall performance of the first half of 2008 met the Group's expectations.

Sales volume breakdown by geographical locations

**Sales volume breakdown by geographical locations:**

| | **Handset Unit Sales For the six months ended 30 June** | | |
|---|---|---|---|
| *('000 units)* | **2008** | 2007 | **Change (%)** |
| Overseas | 6,086 | 3,767 | +62% |
| PRC | 630 | 442 | +43% |
| Total | 6,716 | 4,209 | +60% |

**EMEA**

Unit shipments in EMEA amounted to approximately 2.6 million units in the period under review, a 44% increase over the same period last year thanks to the Group's marketing initiatives in developing markets in Africa and the Middle East. Sales performance was exciting and gained ground in new emerging markets due to the introduction of ultra low cost, entry level products, mainly under U7 platform.

The emerging market is promising and the Group is planning to explore other countries in this region, such as Pakistan and Turkey.

**LATAM**

LATAM operations achieved a sales volume of approximately 3.1 million in the period under review, which was 71% higher than that of the same period last year. The overall operational performance in LATAM was above the Group's expectation.

In the period under review, the Group improved the ASP in most of the markets within this region by enhancing its product mix through the introduction of more mid to high-end models such as the LAVA, the 701, the 700 and data cards.

The opening of an sub-contracted assembly plant in Juarez significantly reduced the Group's costs. It generated important savings on transportation and inventory.

The LATAM remains an important market. The Group expects to increase its sales of handsets in the coming six months stemming from México, Argentina, Colombia and Dominica Republic.

**The PRC**[1]

During the period under review, sales of the Alcatel brand handsets increased by 344% to 40,000 units from 9,000 units in the first half of 2007. The increased sales volume was the result of introducing new models. Sales of the TCL brand handsets reached 590,000 units, an increase from 2007's 430,000 units.

In recent months, the PRC market has faced severe competition from both international and domestic handset manufacturers. The deregulation of the domestic market has further intensified competition. To enhance its competitiveness, the Group introduced the China Chic series under TCL brand, the first wave of “Fashion for Feminine” models that were well received and contributed positively to Group’s gross margin.

The Group won the bid for China Mobile’s 3G handset tender with the U398 product under the TCL brand. Although the size of the contract awarded was relatively small, the Group is striving to secure more quota for supplying 3G products to China Mobile.

**Other Markets**

The Group sold a total of 270,000 CDMA handsets in the period under review. The encouraging results were attributed to the comprehensive range of entry products made available in the first half of 2008 and market recognition of the entry voice and entry MP3 phones, which made up the majority of the shipment of CDMA phones for the period, with half of the shipment directed to EMEA, a market which allows for higher profit margin.

In the period under review, sales in APAC[1] increased by 159% to 350,000 handsets compared to the same period last year. However, the Group focused on promoting entry level products which had a negative impact on its ASP and gross margin, especially in the Philippines and Fiji. Nonetheless, the improved sales volume increased the Group’s market share and further strengthened its position in these APAC markets. To improve its ASP and gross margin, The Group plans to increase the shipment of mid to high-end products in the coming six months.

Competition in the Indian market remained keen. During the review period, the Group changed product strategy from entry level color and FM radio handsets to mid-range camera handsets that leads to the increase in ASP. Nonetheless, profit margins remained marginal due to severe price competition.

To utilize fully its R&D and manufacturing capacities, the Group is seeking to establish collaborative relationships with key operators for the provision of ODM[1] services. The Group plans to develop this new operation into an independent profit centre to generate an additional revenue stream. In addition, the Group will continue to explore potential markets such as Morocco, Angola, Venezuela, Pakistan, Turkey, Taiwan as well as Thailand.

**Product Development**

In the period under review, the Group launched six products under the Alcatel brand and twelve products under the TCL brand.

During the period under review, the Group launched the first wave of China Chic series mobile phone under the TCL brand featuring “Fashion for Female” segment and received positive market response. On the technology front, the Group made several breakthroughs with new models A800 being the first EDGE phone and U398 being the first TD-SCDMA phone that has passed CTA test and is included in the procurement list of China Mobile. The launch of U398 handset enabled TCL to become one of the 3G terminal providers.

The entry level OT-S211 under the Alcatel brand was well received in both EMEA and LATAM markets as it brought together FM radio function and the ULC voice segment. The Group was the first in the industry to introduce an advanced component, stack up technology to a ULC product, allowing it to be slim and compact. The OT-V770 model is the first super slim product that is less than 10mm wide. It has now attained an internationally acclaimed reputation, and was highly regarded as the flagship product of Alcatel brand.

The Group has also commenced the development of its new product line with 3G data cards that will be the first fashionable data card in the market. The Group will continue to concentrate its efforts on further reducing the size of the 3.5G data card and to optimize the performance of the dual internal antenna.

## FUTURE OUTLOOK

The restructuring of China's fixed-line and mobile operators creates massive business opportunities for and growth potential in the Chinese communications market. The Group expects an improvement in sales of the PRC market in the second half of 2008.

With the support of an orchestrated marketing campaign, the Group is determined to further strengthen its sales effort. A direct sales arrangement with national retail chains across the country will also promote sales.

The Group expects to increase further its sales volume through continued expansion in global markets and from strong demand growth in emerging markets, including Mexico, Central America, Africa, Fiji and India.

The Group believes its sales will continue to increase in the second half of 2008 in EMEA and LATAM markets. The Group expects to broaden the Group's sales to the aforementioned markets by introducing Alcatel's diverse range of products across different technologies. In addition, the favorable market response to its CDMA products should open new business opportunities for the Group.

The Group plans to launch 15 new products covering the second wave of "Fashion for Female" mobile phones, TD-SCDMA mobile phones and smart phones under the TCL brand, and 19 new products, including the very low cost WCDMA mobile phones under the Alcatel brand in the second half of 2008. They will become the Group's core products and major revenue drivers.

In order to attain optimal operation efficiency and to support its expansion plans into EMEA, LATAM and other new markets, the Group will continue to enhance its production capacity and efficiency.

The second half of 2008 will be just as challenging as the first half. Going forward, the Group will strive to maintain its growth momentum in sales volume and expand into new markets. The Group remains confidence in achieving its full year sales volume target of 16 million units.

## Financial Review

**Results**
For the six months ended 30 June 2008, the Group's unaudited consolidated revenue amounted to HK$ 2,340 million (2007: HK$2,077 million), representing a year-on-year increase of 13% as compared to the same period last year.

The Group's gross profit margin rose to 19% from 16% in the same period last year, despite the keen competition and general declining product prices.

EBITDA before effect of convertible bonds and profit attributable to equity holders of the parent improved to approximately HK$61 million and HK$112 million respectively (2007: EBITDA before effect of convertible bonds and profit attributable to shareholders was HK$67 million and HK$2 million respectively).Profit before the effect of convertible bonds[2] is HK$16 million which is 23% increase as compared with 2007. Basic earnings per share was HK1.58 cents (2007: basic earnings per share was HK 0.04 cents).

**Inventory**
The Group's inventory (only included finished goods) turnover period was 24 days (same period 2007: 24 days).

**Trade Receivables**
Credit period was 60-90 days on average and the trade receivable turnover was 81 days (same period 2007: 85 days).

**Significant Investment and Acquisition**
There was no significant investment and acquisition for the six months ended 30 June 2008.

**Fund Raising**
There was no fund raising for the six months ended 30 June 2008.

**Liquidity and Financial Resources**
The Group maintained a healthy liquidity position during the period. The cash and cash equivalents balances as at 30 June 2008 amounted to HK$505 million, of which 58% were in Renminbi, 23% in US dollars, 9% in Euro and 10% in Hong Kong dollars & others for the operations. The Group's financial position remains healthy, with total assets of HK$5,487 million and a gearing ratio of 48.6% at the end of the period 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. Excluding the interest-bearing borrowings for RMB arbitrage, the gearing ratio is 16.1%.

**Pledge of Deposits**
Deposit balance of approximately HK$2,444 million (31 December 2007: HK$959 million) represented the pledged deposit for certain RMB arbitrage of approximately HK$2,277 million and retention guarantee for factored trade receivables of approximately HK$167 million.

---

| | |
|---|---|
| *2:*<br>*Note :* | *The effects of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.* |

**Capital Commitment and Contingent Liabilities**

As at 30 June 2008, the Group had capital commitments of approximately HK$2,801,000 for procurement of research and development equipments and office equipments，but not provided for (31 December 2007: Nil).

The Group had no contingent liabilities as at 30 June 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 4,704 employees as at 30 June 2008. Total staff costs for the period under review were approximately HK$199 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, the Company repurchased 62,748,000 shares on the Stock Exchange at an aggregate price of HK$19,847,860. The share buyback reflected management's confidence in the future development of the Group's business. Furthermore, it also enhanced earnings per share of the Company.

## 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 six months ended 30 June 2008, complied fully with the codes set out in the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific 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 interim 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 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, 20 August 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.*