Annual Report 2007

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Stock code: 2618

TCL

创意感动生活

The Creative Life

CORPORATE PROFILE

TCL Communication Technology Holdings Limited ("TCL Communication" or the "Company") together with its subsidiaries (collectively the "Group") engages in the design, manufacture and marketing of a wide range of mobile handsets in global markets. The Group's handsets are sold in the PRC, Europe and Latin America under two key brands - "TCL" and "Alcatel". TCL Communication operates its highly efficient manufacturing plants and R&D centres in various provinces of China and France with headquarter in Shenzhen, China. Currently, TCL Corporation ("TCL Corp.") is the Group's largest shareholder.

For more information, please visit the Group's website: www.tclcom.com.

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Financial Highlights

FINANCIAL SUMMARY

(HK$ Million)	2007	2006
Revenue	**4,971**	5,502
Gross profit	**847**	792
Gross profit margin (%)	**17%**	14%
Profit before the effects of convertible bonds	**52**	15
Effects of convertible bonds:		
– Changes in fair value of the derivative component of the convertible bonds	**(10)**	–
– Difference in interest on convertible bonds calculated between yield to maturity and effective interest rate	**(9)**	–
Profit attributable to equity holders of the parent	**33**	15
Basic EPS (HK cents)	**0.5**	0.3

FINANCIAL POSITION

(HK$ Million)	2007	2006
Property, plant and equipment and prepaid land lease payments	**270**	274
Net current assets	**916**	394
Cash and pledged deposits	**1,667**	568
Total liabilities	**3,264**	2,998
Interest bearing borrowings	**1,407**	488
Convertible bonds	**369**	–
Net assets	**1,052**	672

KEY FINANCIAL INDICATORS

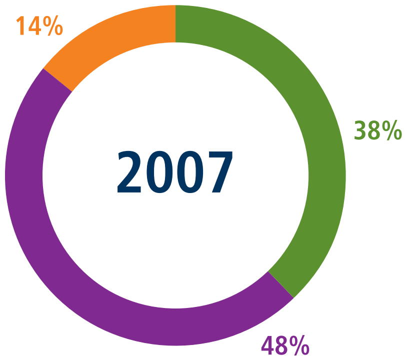
(HK$ Million)	2007	2006
Inventory turnover (days) *	**23**	23
Trade receivable turnover (days)	**75**	91
Trade payable turnover (days)	**56**	70
Current ratio (times)	**1.3**	1.1
Interest bearing borrowings/total assets	**32.6%**	13.3%

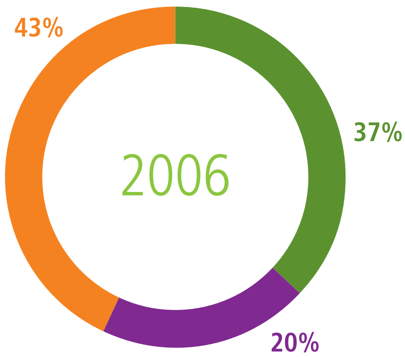
* Finished goods only

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

REVENUE BY PRODUCT

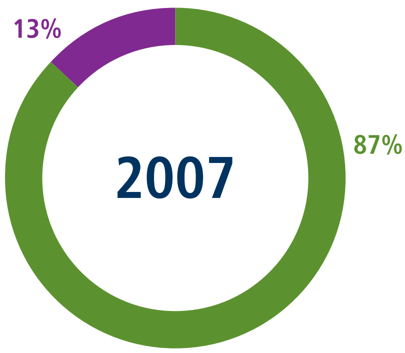
- Multimedia
- Monochrome
- Colour

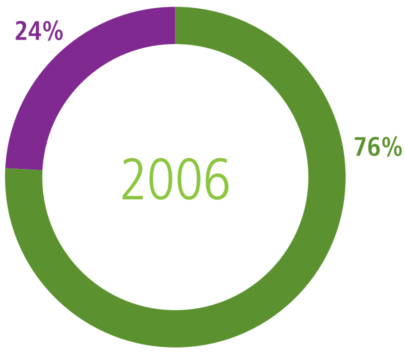




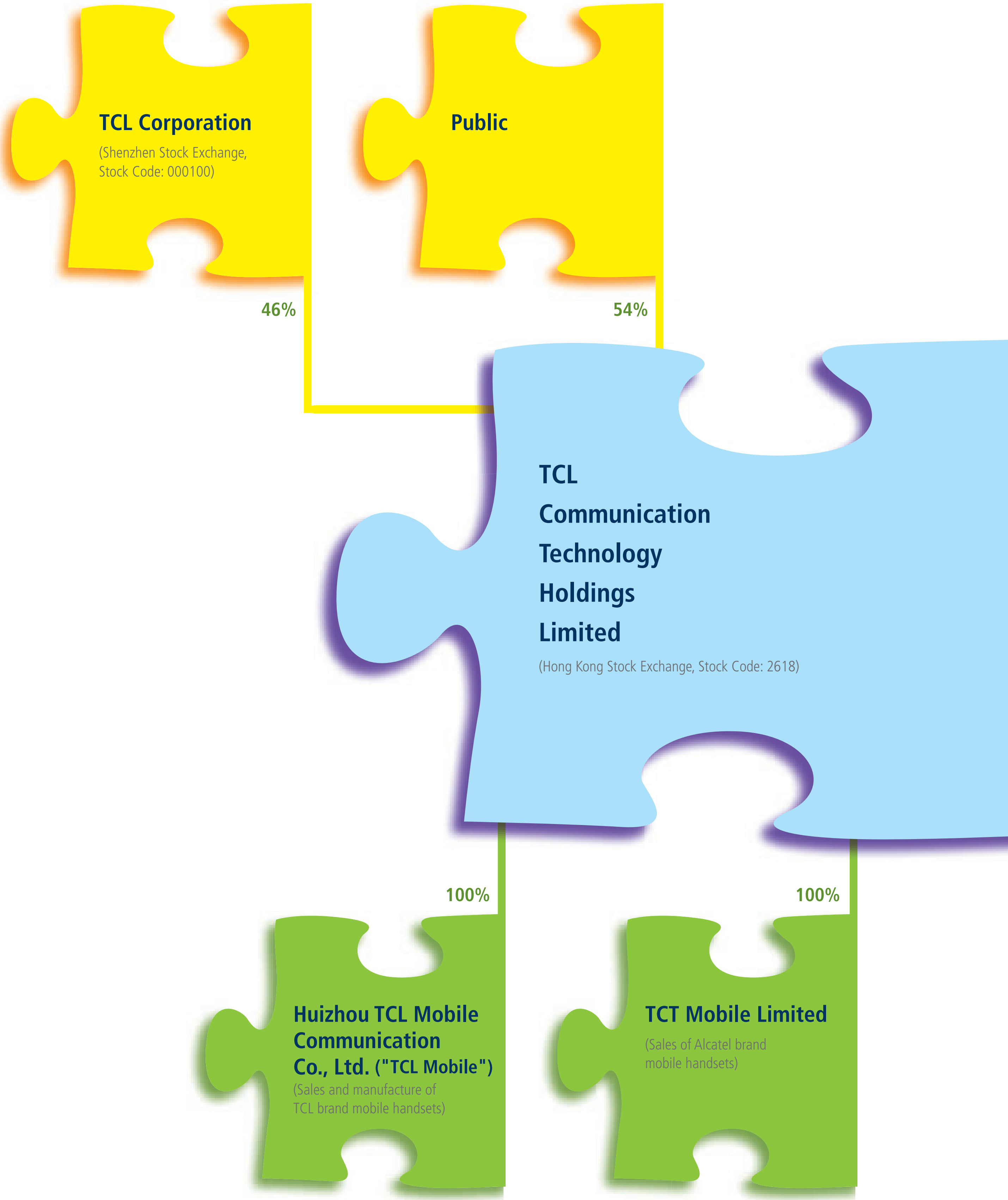
REVENUE BY MARKET

- Overseas
- PRC





Corporate Structure



2007 Year In Review

FEBRUARY >

MARCH >

JUNE >

OCTOBER >

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12 Feb
Took part in the 3GSM World Congress 2007 held in Barcelona, displaying a range of new Alcatel products.

27 Mar
Took part in the 2007 CTIA WIRELESS Exhibition held in Orlando, Florida, U.S.A, and established its presence in North America.

Apr
Issued a total of US$45 million zero coupon convertible bonds for general corporate working capital purpose and refinancing of existing indebtedness.

18 Jun
TCL Group held news conference in Beijing, introducing TCL new business strategy called "The Creative Life".

Jun
Subscription of new shares to strategic investors amounting HK$268 million and completed acquisition of JRDC, a R&D JV, aiming to strengthen product development.

Sep
Extension of Alcatel brand licensing for 10 more years to year 2024.

Output exceeded 1.5 million units for a single month.

20 Oct
Relaunched Alcatel brand in the China market. This brand will symbolize a combination of fashion style and modern technology. TCL Communication will cooperate with RIM company, together they will introduce the Black Berry 8700 to the China market.

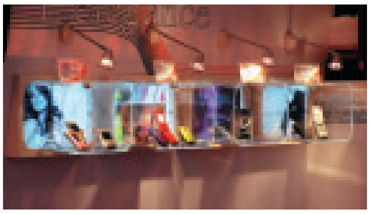
Innovative

Chairman's Statement

Mr. LI Dongsheng

Dear Shareholders,

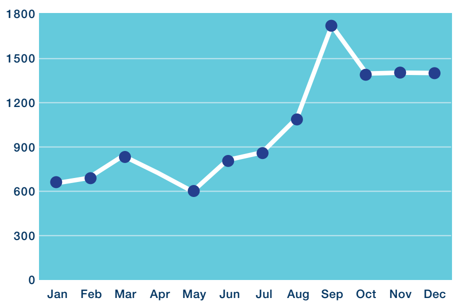
The global mobile handset market enjoyed a double-digit growth in the past year. Despite the high market penetration of handsets in many developed countries, there was a strong demand for low-priced entry-level handsets from developing countries and emerging markets. As the leading brand name handset suppliers continued to introduce new models of handsets with enhanced features, there was an increasing demand in mature markets driven by replacement needs.



Following the Group's continued efforts in the past few years in business restructuring, which resulted in improvement in operation efficiency, the Group's business has resumed its momentum for a steady growth. In 2007, the Group's profit was HK$33 million, representing an increase of 120% as compared with 2006 while profit before the effects of Convertible Bonds[#] was HK$52 million, representing an increase of 246% as compared with 2006, and has remained profitable for seven consecutive quarters. The performance was also an endorsement to TCL Communication's success in rebuilding the Alcatel brand in the global market.

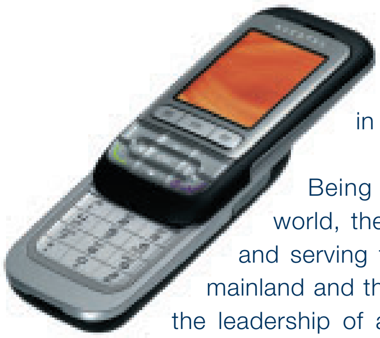
SUCCESS IN GLOBALIZATION

TCL Communication is among the few domestic enterprises which succeeded in realizing business globalization through overseas acquisitions. The Group's successful experience has set an example for enterprises with an ambition for overseas expansion. After years of adaptation and integration, business restructuring and realignment of management



[#] Effects of convertible bonds included changes in Fair Value of derivative component of Convertible Bonds and Difference in Interest on Convertible Bonds calculated between Yield to Maturity and Effective Interest Rate.

Chairman's Statement



team, the Group has eventually set its path for steady development in the international arena.

Being one of the eight largest mobile handset manufacturers in the world, the Group successfully implemented the strategy of "Basing in China and serving the world market", taking advantage of the low-cost production in mainland and the awareness of the Alcatel brand in the international market. Under the leadership of a management team with an international perspective and a pool of technical and design experts, the Group has secured a leading position among the second tier mobile handset manufacturers.

In 2007, the Alcatel brand continued to bolster its sales drive in Europe, Middle East and Africa (EMEA) as well as Latin America (LATAM), while actively developing other new markets.

During the year under review, handset series U7 and C7 targeting at the ultra low cost segment were launched. Addressing the growing market demand in developing countries and emerging markets, these new products were well received by the local customers and had achieved favourable sales results.

In the European market, the Group had adopted a new approach to expanding its sales and enhancing the brand recognition of Alcatel. Following the collaboration with the renowned brand name ELLE through the introduction of a handset model under the ELLE brand, the Group entered into another agreement with renowned travel bag brand name Mandarina Duck in 2007. This crossover arrangement enabled the Group to design and produce handsets for the renowned brand names to market under their own labels.

The Group is one of the first mobile handset manufacturers to have an independent department to handle co-branding collaborations. The department is responsible for exploring opportunities for cooperation with leading international brands.

During the year, the Group had adjusted its strategies in the PRC market to consolidate its partnership with telecommunication network operators, China Mobile and China Unicom. Sales and marketing efforts were diverted to establishing nationwide wholesale distribution platform, in addition to building direct sales relationship with mega chains.

Positioned as an international brand incorporating novel and chic design, Alcatel mobile handsets were re-launched onto the China market in 2007. Alcatel handsets' avant-garde and stylish design and distinctive European feel are expected to fascinate the domestic consumers. Another major breakthrough of the Group was the manufacture of the renowned BlackBerry handset under the Alcatel brand in China. The first shipment of Alcatel BlackBerry handsets had been delivered to China Mobile. The arrangement not only displayed the Group's edges in manufacturing technology, but also further enhanced Alcatel's brand awareness in the China market.

DISTINCTIVE PRODUCT POSITIONING

On the technology front, we have been striving to upgrade our products and to develop technology meeting the requirements of 3G and multimedia communications. On the other hand, we continued to lower our production costs, enabling the Group to be more flexible in pricing in order to offer value-for-money products.

The Group will capitalize on its mix of local and international design experts to expand the product range emphasizing creativity and uniqueness.

Looking to the future, the TCL brand will be more devoted to the theme "Fashion for Female" to reinforce its brand image among end-users.

To cater for varying customer preference and needs for personalized design, the Alcatel brand will focus on bringing in innovative designs and ultra slim product models.

EXPLORING NEW MARKETS

In 2007, 87% of the Group's sales was generated from overseas markets, with EMEA and LATAM accounting for the largest proportions. During the year under review, the Group's new products had been well received in Russia, Africa and other European countries. Furthermore, the Group successfully established its presence in Brazil and the USA. In the emerging markets, the Group secured its first order from India. The Group has established a solid relationship with the major local telecommunication operators and has entered into a distribution agreement with them for the Indian market. The Group is well poised for further expansion into this enormous market.

FUTURE PROSPECTS

The Alcatel and TCL brands have established their brand awareness and market position in the international and domestic markets respectively. Working towards the goal of becoming the most innovative handset manufacturer, the Group is applying to patent its self-developed technologies, as well as seeking to acquire more technology patents through various means.

The Group will continue to enhance its cost effectiveness and market competitiveness with the integration of its research and development, production, and sales and marketing efforts.

We believe the Group has laid a solid foundation to support its advancement to a new stage of development, and we are committed to achieving our medium- to long-term strategic objectives driven by efficiency enhancement and supported by further realization of internationalization in management and operation.

APPRECIATION

Finally, on behalf of the Board of Directors, I would like to express our sincere gratitude to our shareholders, customers, suppliers and business partners for their faithful support. I would also like to thank our staff for their valuable contribution and dedication over the past years.

Li Dongsheng
Chairman

29 February 2008

Stylish

Management Discussion and Analysis

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
- Relaunched the Alcatel brand in China during second half of the year
- Extended the Alcatel brand license for another 10 years to 2024

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.

Management Discussion and Analysis

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		
('000 units)	**2007**	2006	**Change (%)**
Overseas	10,831	9,936	+9%
PRC	1,079	1,566	-31%
Total	11,910	11,502	+4%

EMEA[1]

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.

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.

LATAM[1]

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.

Management Discussion and Analysis

The PRC[1]

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.

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 APAC[1] 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.

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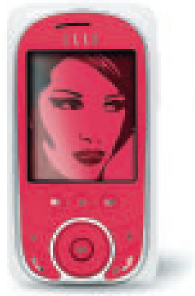
1 *Note:* The 7 S&M/CS centres are: Europe, Middle East and Africa ("EMEA")
Latin America ("LATAM")
Asia Pacific ("APAC")
India ("India")
ODM ("ODM")
Alcatel and TCL brand in the PRC ("Alcatel PRC") and ("TCL PRC")



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 emphases 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.

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.

Management Discussion and Analysis

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 bonds[2] 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).

2: *Note:* 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.

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.

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

Management Discussion and Analysis

changes of fair value of derivative component of Convertible Bonds amounting to HK$10 million recognised in the income statement. The unrealized 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.

Dynamic

Directors and Senior Management

Mr. LI Dongsheng

Dr. LIU Fei

Mr. LI Dong Sheng

50, is the founder and Chairman of the Company. He is responsible for formulating corporate strategies and steering the management of the Company. He was awarded the following titles:

2004 "CCTV Man of the Year in the Chinese Economy"
One of the worldwide most influential business leaders by Time and CNN
French National Honor Metal (OFFICIER DE LA LEGION D'HONNEUR)
2005 One of the most influential entrepreneurs by China Entrepreneur Magazine
2006 One of the most influential entrepreneurs by China Entrepreneur Magazine
2007 "Corporate Leadership Award" by the US-Sino Forum in Chicago

Mr. Li also holds a number of positions in the community, including Chairman of the China Video Industry Association and Vice Chairman of the China Chamber of International Commerce.

Mr. Li has more than 20 years of experience in various aspects of the electronics industry particularly in the manufacture and sales of electronic products. He is an engineer and holds a Bachelor of Science Degree from Huanan Polytechnic University.

Mr. Li is also the Chairman of TCL Multimedia Technology Holdings Limited and TCL Corporation and a director of a number of subsidiaries of TCL Corporation.

EXECUTIVE DIRECTORS

Dr. LIU Fei

born in November, 1964, has more than 20 years of intensive experience in the worldwide wireless industry. He is an expert in management of multinational company, business strategy, and merger & acquisition. Since January 2005, Dr. Liu is the CEO of TCL Communication Technology Holdings Ltd. and Senior Vice-President of TCL Corporation. He is also the Chairman of TCL Communication Equipment Ltd. He was the founder of JCT Mobile Technology Company in 2002 and held the position of President and CEO until 2004. He joined TCL Mobile in 2001 as Senior Vice President and Head of Business and Product Strategy. Prior to joining TCL, Dr. Liu worked as the Wireless Strategic Business Development Manager of Texas Instruments for 7 years, and Staff Scientist and Application Manager in Biomagnetic Technology Inc. for 5 years starting 1991. Dr. Liu completed a Ph.D program jointly offered by The University of California-San Diego and The University of Electronic Science and Technology in CDMA Communication System Analysis and Design. He received his Master degree and Bachelor degree from The University of Electronic Science and Technology of Chengdu, China.

Directors and Senior Management


Mr. WONG Toe Yeung


Mr. YU Enjun


Mr. BO Lianming

Mr. WONG Toe Yeung

aged 68, joined the Group in March 1999 and had been an Executive Director of the Company until June 2006. He has over 30 years of experience in the consumer electronics products industry. Mr. Wong was a Non-executive Director of J.I.C. Technology Company Limited, a company listed on the Main Board of the Stock Exchange, during the last three years.

Mr. YU Enjun

aged 40, is the Chief Operation Officer of the Company. He is also a Vice President of TCL Corporation. Mr. Yu joined TCL Corporation, the Company's controlling shareholder, in August 2000 and had served as the Deputy General Manager of TCL Computer Technology Co. Ltd. and the General Manager of Highly Information Industry Co. Ltd.. He was the Assistant President of TCL Corporation from September 2006 to October 2007 and has thereafter been serving as the Vice President of TCL Corporation. Prior to joining TCL Corporation, Mr. Yu held positions of Financial Manager and Chief Accountant in various companies of the Hisense Group. Mr. Yu graduated from Gansu Technology University, majoring in Industrial Accounting, and obtained Entrepreneur MBA at China Europe International Business School.

NON EXECUTIVE DIRECTORS

Mr. BO Lianming

aged 45, has over 7 years of experience in the consumer electronics products industry. Mr. Bo holds a Doctor's degree in Business Management from Xi'an Jiaotong University. Before joining TCL Corporation, the Company's controlling shareholder, in 2000, he was the deputy chief accountant of Shenzhen Airlines, officer of teaching and studies and deputy faculty officer of the Shanxi Institute of Finance and Economics, and deputy general manager of the Shanxi Baoji General Merchandise Culture Company. Mr. Bo held a number of management positions including Vice President and Financial Director of TCL IT Industrial Group, General Manager of TCL Network Equipment Company, Deputy General Manager of TCL Computer Company,Vice president of TCL Components Strategic Business Unit, and director of CEO's Office in TCL Corporation, Executive Vice President of TTE Corporation. Human Resources Director and General Manager of Human Resources Management Center in TCL Corporation and Vice President of TCL Corporation. He is also an Executive Director and Senior Vice President of TCL Corporation, the Chairman of TCL Home Appliances Business Group.


Mr. HUANG Xubing


Mr. SHI Cuiming

Mr. HUANG Xubing

aged 43, joined TCL Corporation in March 2001 and served as the Officer and General Manager of the Financial Settlement Centre of TCL Corporation. He became the Chief Economist of TCL Corporation in June 2004, Director and General Manager of TCL Finance Co. Ltd. in October 2006 and has been a member of the Executive Committee of TCL Corporation since July 2007. Before joining TCL Corporation, Mr. Huang served as the Head of Credit Facilities Department of China Construction Bank, Guangdong Branch and the Senior Manager of the representative office of China Cinda Asset Management Corporation in Guangzhou. Mr. Huang graduated from Research Institute for Fiscal Science, Ministry of Finance, P.R.China, majoring in Finance, and obtained a master degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, P.R. China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Cuiming

67, graduated in 1963 from the Department of Management Engineering at the Beijing University of Posts and Telecommunications. From 1981 to 1987, Mr. Shi served as Deputy Director of the Department of Postal Economic Research and as Deputy Director General of the Bureau of Finance of the Ministry of Posts and Telecommunications. From 1987 to 1997, he was Director General of the Bureau of Finance, Director General of the Department of Operations and Finance and Director General of the Department of Finance of the Ministry of Posts and Telecommunications. He was previously the Chairman of the Board and the CEO of China Mobile (Hong Kong) Limited, and an Executive Director and Executive Vice- President of China Unicom Limited, both companies listed on the main board of the Hong Kong Stock Exchange and the New York Stock Exchange. He is currently the Chairman and Executive Director of CITIC 1616 Holdings Limited, a company listed in the main board of the Stock Exchange, and was a Consultant to CITIC Pacific Limited. Mr. Shi is also an Independent Non-executive Director of China GreenTech Corporation Limited, a company listed on the NASDAQ Exchange.

Directors and Senior Management


Mr. LIU Chung Laung


Mr. LAU Siu Ki

Mr. LIU Chung Laung aged 74, graduated in 1956 from National Cheng Kung University with a B.Sc. degree in Electrical Engineering. He also holds S.M. and Sc. D. degrees in Electrical Engineering from the Massachusetts Institute of Technology. Mr. Liu has been engaged in teaching and research in the field of Electrical Engineering for a long period of time. He is now an Honorary Chair Professor of National Tsing Hua University in Hsinchu, Taiwan. Mr. Liu is also an Independent Non-executive Director of United Microelectroins Corporation, Mototech Technology Corporation, Macronix International Co., Ltd, Anpec Electronics Corporation and Lightronik Technology Inc. and an Independent Supervisor of MediaTek Incorporation, all being companies listed on Taiwan Stock Exchange. He was also a Director of Optimax Technology Corporation, a company listed on Taiwan Stock Exchange Corporation, during the past three years.

Mr. LAU Siu Ki 49, is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants ("ACCA"). He has over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing and had worked for an international accounting firm for over fifteen years. He is now working as a consultant in the financial advisory field and also acting as an Independent Non-Executive Director of a number of listed companies in Hong Kong. Mr. Lau is a member of the ACCA Council and a member of the Executive Committee of the Hong Kong branch of ACCA, and was the Chairman of the Hong Kong branch of ACCA.

SENIOR MANAGEMENT

Mr. YUAN Yi 47, is the President of the Company. He is responsible for the corporate overall operating cost, sourcing, legal, central marketing, and new business development. He is also acting as the CEO of JRD Communication Ltd., a subsidiary of the company. Mr. Yuan joined the Company in 2005. Prior to the Company, he had been in the rolls of the Chief Representative and the General Manager in the Greater China and the Director of Asia business development at Broadcom Corporation. Prior to Broadcom, he was the Global Business Manager at Texas Instruments where he also took a few other important rolls. Mr. Yuan graduated from Shanghai Jiao Tong University in 1982 and obtained his Master Degree in Electronic Engineering from Northern Illinois University.

Dr. GUO Ai Ping, George

44, is Senior Vice President responsible for human resources and administration of the Company. Prior to joining the Group, he held positions as Manager in SB Global, Project Coordinator in IBM, Senior Business Consultant in Arthur Andersen and Chief Technology Officer in Zhaodaola Internet Company. Dr. Guo graduated from Stanford University with a PhD in Management Science and Engineering.

Mr. WONG Kwok Chung, Albert

36, is the Executive Vice President of Alcatel Business Unit of Company, responsible for Alcatel business. Mr. Wong joined the Company in 2005, he has 10 years of experience in computers and electronics industry in Hong Kong, Canada and the PRC. He had been the Senior Software Engineer of KEGO Technology Limited, Chief Information Officer of Inmobo Limited, Chief Executive Officer and Chief Operation Officer of JCT Mobile. Mr. Wong graduated from the University of Toronto with a Bachelor Degree of Science and obtained his Master's degree in Electrical and Electronics Engineering from The Hong Kong University of Science & Technology.

Mr. Nicolas ZIBELL

40, is Senior Vice President of the Company and General Manager of T&A Mexico, responsible for the Company's business in the Americas. Mr. Zibell has over 17 years of experience in sales, marketing and management in Automotive and Telecommunications industries in Europe and Latin America. He graduated from École Superieure de Commerce de Lyon and ESADE Business School with an MBA in 1990.

Mr. Alain LEJEUNE

44, is Senior Vice President of the Company, responsible for global operations. Mr. Lejeune joined the Company in 2004, and has over 15 years experience in the area of Management and Operations in the Telecommunication Industry in Europe and Asia. Prior to joining the Company, he was the Vice President of Asia Pacific of Alcatel Mobile Phone Division. Mr. Lejeune graduated in 1987 from Ecole Centrale de Paris.

Mr. LIU Yuk Tung, Thomas

44, is Senior Vice President and Chief Financial Officer of the Company. Mr. Liu has about 20 years experience in area of audit, international finance and trading business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation, Sales and Marketing Director and General Manager of Neo-Neon Holdings Ltd.. Mr. Liu holds a Bachelor's degree major in Economics from Hong Kong University, a MBA from University of New South Wales. He is also a CPA of HKICPA, Chartered Accountant of ICAEW and fellow member of ACCA.

Dr. WANG Jiyang

38, is Senior Vice President and General Manager of Shanghai R&D center, responsible for product research and development of Alcatel brand. Dr. Wang joined the Company in 2005, and has over 16 years experience of research and development in electronics industry. Prior to joining the company, he had been Engineer, Project Manager, General Manager of Development Center, Vice General Engineer in TCL Mobile Communications Ltd. Dr. Wang graduated from University of Electronic Science and Technology of China with a PhD major in Electrocircuit & System.

Corporate Information

BOARD OF DIRECTORS	
EXECUTIVE DIRECTORS	Mr. LI Dongsheng *(Chairman)* Mr. LIU Fei *(Chief executive officer)* Mr. WONG Toe Yeung *(appointed on 30 May 2007)* Mr. YU Enjun *(appointed on 18 December 2007)*
NON-EXECUTIVE DIRECTORS	Mr. BO Lianming *(appointed on 30 May 2007)* Mr. HUANG Xubin *(appointed on 18 December 2007)*
INDEPENDENT NON-EXECUTIVE DIRECTORS	Mr. LAU Siu Ki Mr. SHI Cuiming Mr. LIU Chung Laung *(appointed on 30 May 2007)*
AUDIT COMMITTEE	Mr. LAU Siu Ki *(Chairman)* Mr. SHI Cuiming Mr. BO Lianming *(appointed on 30 May 2007)*
REMUNERATION COMMITTEE	Mr. SHI Cuiming *(Chairman)* Mr. LAU Siu Ki Mr. BO Lianming *(appointed on 3 July 2007)*
COMPANY SECRETARY	Ms. PANG Siu Yin
AUTHORISED REPRESENTATIVES	Mr. LIU Fei Ms. PANG Siu Yin
PRINCIPAL BANKERS	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 13/F, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong Societe Generale Level 38, 3 Pacific Place 1 Queen's Road East Hong Kong

SOLICITORS	Cheung, Tong & Rosa Rooms 1621-33, 16/F Sun Hung Kai Centre 30 Harbour Road Hong Kong
AUDITORS	Ernst & Young Certified Public Accountants 18/F, Two International Finance Centre 8 Finance Street Central Hong Kong
PRINCIPAL SHARE REGISTRAR	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town, Grand Cayman Cayman Islands
BRANCH SHARE REGISTRAR	Tricor Investor Services Limited 26/F Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
REGISTERED OFFICE	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
PRINCIPAL PLACE OF BUSINESS IN HONG KONG	Room 1502, 15/F, Tower 6 China Hong Kong City 33 Canton Road Tsimshatsui, Kowloon Hong Kong

Corporate Information

INVESTOR AND MEDIA RELATIONS

CorporateLink Limited
17/F Winsome House
73 Wyndham Street
Central
Hong Kong

TICKER SYMBOL

Listed on The Stock Exchange of Hong Kong Limited under the share ticker number 2618

WEBSITE

tclcom.tcl.com

Corporate Governance Report

The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board adopted the code provisions (the "Code Provisions") of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the CG Code wherever appropriate.

Throughout the year ended 31 December 2007, the Group complied fully with the CG Code.

THE BOARD

(1) The Board of Directors

The Board currently comprises 9 directors, 4 of whom are executive directors, 2 are non-executive directors and 3 are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors:	LI Dongsheng *(Chairman)* LIU Fei *(Chief executive officer)* WONG Toe Yeung YU Enjun
Non-Executive Directors:	BO Lianming HUANG Xubin
Independent Non-Executive Directors:	LAU Siu Ki SHI Cuiming LIU Chung Laung

The biographies of the directors are set out in the "Directors and Senior Management" on Pages 17 to 21 of this annual report.

The members of the Board, all being industry veterans, are responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management.

Corporate Governance Report

The non-executive directors play an important role on the Board. Accounting for more than half of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole. Pursuant to the Listing Rule 3.13, the Group has received written confirmations from each INED of his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major issues that require the Board's timely attention and decisions. As the Board highly values the independent opinions and diversified perspectives from the independent non-executive directors, they, in addition to the executive directors, participate in the special Board meetings very often.

During 2007, the Board held 4 regular meetings at about quarterly intervals and 8 additional meetings (6 of which were held regarding special matters which required the Board's decisions whereas the other 2 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2007 is as follows:

	Number of Board meetings attended/eligible to attend*		
	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only
Executive Directors			
LI Donsheng *(Chairman)*	4/4	2/6	2/2
LIU Fei *(Chief executive officer)*	4/4	5/6	2/2
YAN Yong (resigned on 18 December 2007)	0/4	0/6	0/2
WONG Toe Yeung (appointed on 30 May 2007)	2/2	2/3	0/1
YU Enjun (appointed on 18 December 2007)	0/0	0/0	0/0
Non-Executive Directors			
WANG Kangping (retired on 30 May 2007)	0/2	0/3	N/A
ZHAO Zhicheng (retired on 30 May 2007)	0/2	0/3	N/A
BO Lianming (appointed on 30 May 2007)	2/2	3/3	N/A
HUANG Xubin (appointed on 18 December 2007)	0/0	0/0	N/A

Corporate Governance Report

	Number of Board meetings attended/eligible to attend*		
	Regular Board Meetings	Additional Board Meetings concerning special matters requiring the Board's decisions	Additional Board Meetings concerning operational matters only
Independent Non-Executive Directors			
LAU Siu Ki	4/4	6/6	N/A
SHI Cuiming	2/4	3/6	N/A
WANG Chongju (retired on 30 May 2007)	2/2	0/3	N/A
LIU Chung Laung (appointed on 30 May 2007)	2/2	3/3	N/A

* attendance rate counts only the Board meetings held during the period when a director holds such office.

(2) Management Functions

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

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

The types of decisions that the Board has delegated to management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving entering into any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnels;
- approving of press release concerning matters decided by the Board;
- approving any matters related to the routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and the cease of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

(3) Nomination of Directors

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new directors. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to election by shareholders at the next annual general meeting after their appointment.

During 2007, the Board held two meetings to discuss the nomination and appointment of new directors, namely WONG Toe Yeung, YU Enjun, BO Lianming, HUANG Xubin and LIU Chung Laung, the retirement of WANG Kangping, ZHAO Zhicheng and WANG Chongju, and the resignation of YAN Yong.

The Board adopted a procedure and criteria for nomination of directors, the details of which are set out below:

Procedures for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

Corporate Governance Report

4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common criteria applicable to all directors
   - (a) Character and integrity candidate
   - (b) The willingness to assume Broad fiduciary responsibility
   - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
   - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company
   - (e) Significant business or public experience relevant and beneficial to the Board and the Company
   - (f) Breadth of knowledge about issues affecting the Company
   - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
   - (h) Ability and willingness to contribute special competencies to Board activities
   - (i) Fit with the Company's culture

2. Criteria applicable to non-executive directors/INEDs
   - (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   - (b) Accomplishments of the candidate in his or her field
   - (c) Outstanding professional and personal reputation
   - (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

(4) Appointment, Re-election and Removal

At the last annual general meeting held on 30 May 2007 (the "AGM"), all the non-executive directors were elected to hold office for a specific term of approximately one year until the conclusion of the next annual general meeting, subject to re-election by shareholders. One-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the annual general meeting in each year. A retiring director is eligible for re-election.

The directors appointed in 2007 including Mr. YU Enjun and Mr. HUANG Xubin will be subject to election by shareholders in the next general meeting of the Company.

(5) Roles of Chairman and Chief Executive Officer

The positions of the Chairman and the chief executive officer are held respectively by Mr. LI Dongsheng and Dr. LIU Fei. This ensures a clear distinction between the Chairman's duty to manage the Board and the chief executive officer's duty to oversee the overall internal operation of the Group.

(6) Directors' Securities Transactions

The Board has adopted a code of conduct regarding directors' securities transaction 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 throughout year 2007, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2007 are set out on Pages 41 to 49 of this Annual Report.

BOARD COMMITTEES

The Board has set up three Board Committees, namely the Remuneration Committee, the Audit Committee and the Executive Committee, all with specific terms of reference, to oversee particular aspects of the Group's affairs.

(1) Remuneration Committee

The Remuneration Committee currently comprises two INEDs and one non-executive Director, namely Mr. SHI Cuiming, who is also the Chairman of the Remuneration Committee, Mr. LAU Siu Ki and Mr. BO Lianming.

The Remuneration Committee is governed by its terms of reference, which are available at the Group's website at tclcom.tcl.com.

Corporate Governance Report

A. *Remuneration of Directors and Senior Management*

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During 2007, the full Remuneration Committee met twice and accomplished the following:

- reviewing the Group's expenses and changes on staff remuneration in 2007;
- making recommendation on the remuneration package for senior management of the Group; and
- devising a bonus plan for the Group for 2007 which ties in with the amount of profits of the Group.

Attendance of each member at the Remuneration Committee meeting in 2007 is as follows:

	Number of committee meeting attended/eligible to attend
SHI Cuiming *(Chairman)*	2/2
LAU Siu Ki	2/2
WANG Chongju	0/0
BO Lianming	2/2

Emolument Policy and Long-Term Incentive Plan

The Group provides a competitive remuneration package to its directors to attract and retain talents. A large portion of the package for executive directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive schemes and stock option plans. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive scheme of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The award under this scheme is made by installments over a period so as to provide an incentive for the executives to consistently perform at a high standard and bring along long-term benefits to the Group.

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

- directors' fee, which is usually paid annually;
- additional fee for additional responsibilities such as directorship in Board Committees; and
- shares or share options of the Group, which is awarded subject to the discretion of the Board.

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on note 11 to the financial statements.

B. *Remuneration of Auditors*

During 2007, the fees in respect of audit and non-audit services payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK$4,095,000 and HK$514,200 respectively. Non-audit services provided by Messrs Ernst & Young included mainly tax services and issue of comfort letter for convertible bonds.

Corporate Governance Report

(2) Audit Committee

The Audit Committee currently comprises two INEDs and one non-executive Director, namely Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. BO Lianming. Mr. LAU Siu Ki, the Chairman of the Audit Committee, is a professional accountant with profound financial and accounting expertise.

The Audit Committee usually meets 4 times a year to review the truthfulness, completeness, and accuracy of the Group's financial statements. It is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also oversees the scope of work of external auditors.

The Audit Committee's work in 2007 includes consideration of the following matters:

- the completeness and accuracy of the 2006 annual and 2007 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2006;
- review of the effectiveness of the system of internal control of the Group;
- proposal to the Board in relation to enhancement of the internal control system of the Group;
- the audit fees payable to external auditors for year 2007;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted; and
- the scope and focus of the audit in 2008.

During 2007, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings is as follows:

	Number of committee meetings attended/eligible to attend
LAU Siu Ki *(Chairman)*	4/4
SHI Cuiming	4/4
WANG Chongju	2/2
BO Lianming	2/2

Other attendees at the Audit Committee meetings include the Group's chief financial officer and the external auditors for discussion of the audit of the interim and annual results only.

(3) Executive Committee

The Executive Committee was set up in March 2007 and currently comprises nine members, all of whom are senior executives from various units of the Company, and one secretary. The composition of the Executive Committee is set out as follows:

Members
GUO Aiping
Alain LEJEUNE
LIU Fei
LIU Yuk Tung
Yves MOREL
WONG Kwok Chung
YU Enjun
YUAN Yi
Nicholas ZIBELL

Secretary
NIU Haizhen

The Executive Committee is responsible for implementing the objectives and strategic plans as approved by the Board and overseeing the day-to-day operations of the Group. Normally, the Executive Committee meets once a month, and may convene additional meetings when necessary to handle urgent matters.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

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

The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

(2) Internal Controls

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. For the year of 2007, no critical internal control issues have been identified and efforts are being made in implementing changes to resolve the identified issues.

INVESTOR RELATIONS

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Company's website at tclcom.tcl.com. Viewers can also send enquiries to the Board or senior management by email at ir@tclcom.com or directly by raising questions at the general meeting of the Company.

Human Resources and Social Responsibility

HUMAN RESOURCES

The Company has high regards for its employees and considers them as part of its most valuable assets. It is committed to cultivating a working environment that encourages communication, team building and sense of belonging.

As at 31 December 2007, the Company had a total of 4,864 employees. The Group offers social and business insurance schemes in accordance with the relevant state laws and regulations as well as competitive remuneration packages to employees, providing an equal and fair working environment. The Company also places great emphasis on upgrading employees' professional skills and establishing a learning organization, offering room for individual staff's personal growth.

In 2007, the Company introduced a number of innovative methods to add value to its human resources. These included inviting well known training organizations from Taiwan, Hong Kong and China as well as making full use of its in-house trainers to offer a wide range of staff training programmes, which cover R&D, manufacturing, supply chain, sales and marketing, human resources, finance, English language and team development. All in all, during the year under review, the Company's employees received, on average, 46 hours of training and achieved an overall passing rate of 92%. Not only did these training sharpened the middle and top management's leadership and management skills, they also offered general staff at working level an opportunity to advance their skills at work.

SOCIAL RESPONSIBILITY

Society is the base of an enterprise. As a responsible corporate citizen, the Company is committed to shouldering its responsibilities. As such, the Company abides by high moral standards and is dedicated to improving the business environment by promoting environmental protection and energy saving. It has actively participated in charity work.

As one of the key members of the TCL Group, we have actively supported the Group's charitable work. So far, TCL Group has donated in aggregate of approximately more than RMB75 million in cash and supplies, of which a major proportion accounting to approximately more than RMB30 million being contributed to education. To date, 38 Project Hope Schools have been completed with an additional of 18 under construction. In addition, TCL Corporation has established various TCL Scholarships in different universities in China to support poor students in furthering their education. It has also donated TVs to help the poor in developing regions, and, particularly, donations were made after the occurrence of natural disasters like flooding and tsunamis, we see it as our obligation to always provide help and hope to people in need.

Report of the Directors

The directors of TCL Communication Technology Holdings Limited (the "Company") (the "Directors") are pleased to present the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries comprise manufacturing and sale of mobile phones. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 57 to 151.

The Directors do not recommend the payment of any dividend for the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and the Prospectus and reclassified as appropriate, is set out on page 152. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL, CONVERTIBLE NOTES AND SHARE OPTIONS

Details of movements in the Company's share capital, convertible notes and share options during the year was disclosed in notes 37, 32 and 38 to the financial statements and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Directors' Report respectively.

PRE-EMPTIVE RIGHTS

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

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 year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 40 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, no reserve of the Company as calculated in accordance with the Companies Law of the Cayman Islands was available for distribution to shareholders of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the year and sales to the largest customer included therein amounted to 9%. Purchases from the Group's five largest suppliers accounted for 27% of the total purchases for the year and purchase from the largest supplier included therein amounted to 10%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers, except that disclosed in note 46(a) to the financial statements.

DIRECTORS

The Directors during the year were:

Executive Directors:	Mr. LI Dongsheng *(Chairman)*	
	Mr. LIU Fei *(Chief executive officer)*	
	Mr. WONG Toe Yeung	(appointed on 30 May 2007)
	Mr. YU Enjun	(appointed on 18 December 2007)
	Mr. YAN Yong	(resigned on 18 December 2007)
Non-executive Directors:	Mr. BO Lianming	(appointed on 30 May 2007)
	Mr. HUANG Xubin	(appointed on 18 December 2007)
	Mr. WANG Kangping	(retired on 30 May 2007)
	Mr. ZHAO Zhicheng	(retired on 30 May 2007)
Independent non-executive Directors:	Mr. SHI Cuiming	
	Mr. LAU Siu Ki	
	Mr. LIU Chung Laung	(appointed on 30 May 2007)
	Mr. WANG Chongju	(retired on 30 May 2007)

In accordance with article 86(3) of the Company's Articles of Association and the corporate governance code adopted by the Company, Mr. Yu and Mr. Huang will hold office only until the next general meeting of the Company and shall then be eligible for re-election. The board of Directors proposed each of Mr. Yu and Mr. Huang to be elected as an executive Director and a non-executive Director of the Company respectively at the AGM.

Report of the Directors

In accordance with article 87(1) of the Company's Articles of Association, Mr. Li Dongsheng, Mr. Liu Fei and Mr. Bo Lianming will retire by rotation at the conclusion of the forthcoming annual general meeting of the Company ("AGM") and will offer themselves for re-election at the AGM. Mr. Lau Siu Ki, Mr. Shi Cuiming and Mr. Liu Chung Laung will hold office until the conclusion of the AGM. Mr. Lau Siu Ki, Mr. Shi Cuiming and Mr. Liu Chung Laung, being eligible, will offer themselves for re-election at the AGM.

Each of the independent non-executive Directors has confirmed his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 21 of the annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2007, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Particulars of the Directors' remuneration and the five highest paid employees during the financial year are set out in note 11 to the financial statements.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the Directors are set out in "Emolument Policy and Long-Term Incentive Plan" of the Corporate Governance Report.

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 5 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 46 to the financial statements under the heading "Related Parties Transactions", no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note 46 to the financial statements under the heading "Related Parties Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

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

At 31 December 2007, the interests and short positions of the Directors and chief executive in the share, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(A) Long positions in shares of the Company:

Name of Director	Type of interest	Interest in shares held	Approximate percentage of the Company's issued share capital
Mr. LI Dongsheng	Beneficial owner	110,000,800	1.53%
Mr. LIU Fei	Beneficial owner	80,000	0.001%
Mr. WONG Toe Yeung	Family interest/ Beneficial owner *(Note)*	550,323,000	7.66%
Mr. YU Enjun	Beneficial owner	696,000	0.01%
Mr. BO Lianming	Beneficial owner	438,000	0.01%

Note: Mr. Wong Toe Yeung was deemed to be interested in 548,953,000 shares of the Company which are beneficially owned by his spouse, Ms. Leung Lai Bing. The said shares are held by Norrell Overseas Invest Ltd. as the beneficial owner for the benefit of the MAG Foundation and Ms. Leung is beneficially interested in the interest owned by the foundation. For the remaining 1,370,000 shares of the Company, Mr. Wong Toe Yeung and his spouse, Ms. Leung Lai Bing, are jointly the beneficial owners.

Report of the Directors

(B) Long positions in the underlying shares of the Company – share options:

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

Name or category of participant	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Re-classified	At 31 December 2007	Date of grant	Exercise period (both dates inclusive) *(Notes 4,5, 6 and 7)*	Exercise price *(HK$)*	Closing price immediately before the Date of Grant *(HK$)*
Directors										
Mr. LI Dongsheng	5,454,550	-	-	-	-	5,454,550	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	5,000,000	-	-	-	-	5,000,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	5,000,000	-	-	-	-	5,000,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	11,057,499	-	-	-	11,057,499	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	15,454,550	11,057,499	-	-	-	26,512,049				
Mr. LIU Fei	1,745,456	-	-	-	-	1,745,456	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	7,900,000	-	-	-	-	7,900,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	15,500,000	-	-	-	-	15,500,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	22,114,998	-	-	-	22,114,998	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	25,145,456	22,114,998	-	-	-	47,260,454				
Mr. YAN Yong *(Note 2)*	1,145,456	-	-	-	(1,145,456)	-	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	1,000,000	-	-	-	(1,000,000)	-	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	2,145,456	-	-	-	(2,145,456)	-				
Mr. YU Enjun *(Note 3)*	-	-	-	-	1,036,365	1,036,365	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	-	-	-	-	8,550,000	8,550,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	-	-	-	-	5,500,000	5,500,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	11,258,544	-	-	-	11,258,544	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	-	11,258,544	-	-	15,086,365	26,344,909				
Mr. BO Lianming *(Note 1)*	-	-	-	-	818,183	818,183	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	-	5,629,300	-	-	-	5,629,300	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	-	5,629,300	-	-	818,183	6,447,483				
Mr. HUANG Xubin *(Note 3)*	-	-	-	-	654,546	654,546	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	-	-	-	-	800,000	800,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	2,735,000	-	-	-	2,735,000	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	-	2,735,000	-	-	1,454,546	4,189,546				
Mr. WANG Kangping *(Note 2)*	1,527,274	-	-	-	(1,527,274)	-	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	1,500,000	-	-	-	(1,500,000)	-	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	3,027,274	-	-	-	(3,027,274)	-				
Mr. ZHAO Zhicheng *(Note 2)*	654,546	-	-	-	(654,546)	-	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	1,000,000	-	-	-	(1,000,000)	-	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	1,654,546	-	-	-	(1,654,546)	-				
Mr. LAU Siu Ki	327,273	-	-	-	-	327,273	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	800,000	-	-	-	-	800,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	1,127,273	-	-	-	-	1,127,273				

Name or category of participant	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Re-classified	At 31 December 2007	Date of grant	Exercise period (both dates inclusive) *(Notes 4,5, 6 and 7)*	Exercise price *(HK$)*	Closing price immediately before the Date of Grant *(HK$)*
Mr. SHI Cuiming	327,273	-	-	-	-	327,273	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	800,000	-	-	-	-	800,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	1,127,273	-	-	-	-	1,127,273				
Mr. WANG Chongju	327,273	-	-	-	(327,273)	-	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	800,000	-	-	-	(800,000)	-	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	1,127,273	-	-	-	(1,127,273)	-				
Mr. WONG Toe Yeung *(Note 1)*	-	-	-	-	5,454,550	5,454,550	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	-	-	-	-	5,000,000	5,000,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	-	-	-	-	5,000,000	5,000,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	11,057,499	-	-	-	11,057,499	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
	-	11,057,499	-	-	15,454,550	26,512,049				
Sub-Total	50,809,101	63,852,840	-	-	24,859,095	139,521,036				
Employees	30,641,840	-	-	(4,034,552)	(1,036,365)	25,570,923	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	92,406,999	-	(11,913,332)	(3,855,667)	7,400,000	84,038,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	167,160,000	-	(2,575,999)	(11,487,335)	(5,500,000)	147,596,666	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	274,447,072	-	-	-	274,447,072	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
Sub-Total	290,208,839	274,447,072	(14,489,331)	(19,377,554)	863,635	531,652,661				
Those who have contributed or may contribute to the Group	53,198,228	-	(58,000)	(9,223,644)	(3,272,730)	40,643,854	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	46,368,000	-	(4,277,999)	(2,752,001)	(19,150,000)	20,188,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	16,000,000	-	(1,000,000)	(450,000)	(3,300,000)	11,250,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	-	64,126,800	-	-	-	64,126,800	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
Sub-Total	115,566,228	64,126,800	(5,335,999)	(12,425,645)	(25,722,730)	136,208,654				
Total	456,584,168	402,426,712	(19,825,330)	(31,803,199)	-	807,382,351				

Notes:

1. Mr. Bo Lianming and Mr. Wong Toe Yeung were appointed as non-executive Director and executive Director respectively on 30 May 2007 and their share options under the share option scheme were reclassified under "Directors".

2. Mr. Wang Kangping and Mr. Zhao Zhicheng were retired as non-executive Directors on 30 May 2007. The share options of Mr. Wang Kangping and Mr. Zhao Zhicheng under the share option scheme were re-classified under "Those who have contributed or may contribute to the Group". Mr.Yan Yong was retired as executive Director on 18 December 2007 and his share options were reclassified under "Those who have contributed or may contribute to the Group".

3. Mr. Yu Enjun and Mr. Huang Xubin were appointed as an executive Director and a non-executive Director respectively on 18 December 2007 and their share options under the share option scheme were reclassified under "Directors".

4. The share options granted on 31 May 2005 are exercisable from the commencement of the exercise periods until the expiry of the share options which is on 30 May 2010. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

5. The share options granted on 16 January 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 15 January 2011. One-third of such share options are exercisable after the expiry of 6 months from the date of grant, a further one-third is exercisable after the expiry of 12 months from the date of grant, and the remaining one-third is exercisable after the expiry of 18 months from the date of grant.

6. The share options granted on 30 June 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 June 2011. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

7. The share options granted on 5 July 2007 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 4 July 2012. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.

8. The fair value of the options granted in the current year totaled approximately HK$23,704,540. The following assumptions were used to derive the fair value, using the Binomial Model:

Options granted on 31 May 2005

		At Grant Date	Modification on 3 July 2007
(i)	Exercise Period	1 March 2006 to 30 November 2008	1 March 2006 to 30 May 2010
(ii)	Expected volatility	50% per annum	57% per annum
(iii)	Estimated average life	2.89 years	1.27 years
(iv)	Average risk-free interest rate	3.13% per annum	4.383% per annum
(v)	Early exercise assumption	When the share price is at least 200% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	
(vii)	Estimated rate of leaving service	20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter	30% per annum for the first year after the Grant Date and a rate of 25% per annum thereafter

Options granted on 16 January 2006

		At Grant Date	Modification on 30 June 2006		Modification on 3 July 2007	
(i)	Exercise Period	17 July 2006 to 15 January 2008	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2011
(ii)	Expected volatility	50% per annum	50% per annum	55% per annum	39% per annum	38% per annum
(iii)	Estimated average life	1.72 years	1.25 years	2.46 years	1.08 years	1.13 years
(iv)	Average risk-free interest rate	3.66% per annum	4.48% per annum	4.56% per annum	4.44% per annum	4.44% per annum
(v)	Early exercise assumption	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield			1% per annum		
(vii)	Estimated rate of leaving service	20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter			30% per annum for the first year after the Grant Date and a rate of 25%	

Report of the Directors

Options granted on 30 June 2006

		At Grant Date			Modification on 3 July 2007		
(i)	Exercise Period	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010	1 April 2007 to 30 June 2008	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011
(ii)	Expected volatility	55% per annum	55% per annum	50% per annum	39% per annum	39% per annum	39% per annum
(iii)	Estimated average life	2.87 years	3.22 years	1.64 years	1.15 years	1.15 years	1.81 years
(iv)	Average risk-free interest rate	4.59% per annum	4.61% per annum	4.50% per annum	4.48% per annum	4.48% per annum	4.48% per annum
(v)	Early exercise assumption	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum					
(vii)	Estimated rate of leaving service	20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter			30% per annum for the first year after the Grant Date and a rate of 25% per annum thereafter		

Options granted on 3 July 2007

		At Grant Date
(i)	Exercise Period	5 April 2008 to 4 July 2012
(ii)	Expected volatility	41% per annum
(iii)	Estimated average life	1.16 years
(iv)	Average risk-free interest rate	4.60% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum
(vii)	Estimated rate of leaving service	30% per annum for the first year after the Grant Date and a rate of 25% per annum thereafter

The volatility rate of the share price of the Company was determined with reference to the movement of the Company's and its competitors' share prices.

BMI Appraisals has been appointed to perform the valuation on the 4 batches of share options granted on 31 May 2005, 16 January 2006, 30 June 2006 and 3 July 2007.

(C) Long positions in shares of associated corporations of the Company:

Name of Director	Name of associated corporation *(Notes)*	Type of interest	Interest in shares held	Approximate percentage of the relevant associated corporation's issued share capital	Notes
Mr. LI Dongsheng	TCL Corp	Beneficial owner	97,562,400	3.77%	1
Mr. LI Dongsheng	TCL Multimedia	Beneficial owner	111,666,579	1.91%	2
Mr. BO Lianming	TCL Corp	Beneficial owner	713,192	0.03%	1

Notes:

1. TCL Corporation ("TCL Corp"), a company incorporated in the People's Republic of China, is the ultimate controlling shareholder of the Company.

2. TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company controlled by TCL Corp, is a subsidiary of TCL Corp.

(D) Long positions in underlying shares of associated corporations of the Company – share options:

Name of Director	Name of associated corporation	Type of interest	Interest in underlying shares held	Approximate percentage of the relevant associated corporation's issued share capital
Mr. LI Dongsheng	TCL Multimedia	Beneficial owner	23,990,028	0.41%
Mr. LIU Fei	TCL Multimedia	Beneficial owner	480,000	0.01%
Mr. BO Lianming	TCL Multimedia	Beneficial owner	900,000	0.02%
Mr.WONG Toe Yeung	TCL Multimedia	Beneficial owner	3,600,000	0.06%
Mr. HUANG Xubin	TCL Multimedia	Beneficial owner	720,000	0.01%

Report of the Directors

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

Save as disclosed above and in the "Share Option Scheme" disclosed in note 38 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any Director, their respective spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares or underlying shares in or debentures of the Company or its associated corporations.

Substantial shareholders' interests in shares and underlying shares

At 31 December 2007, the interests and short positions of the persons other than a Director or chief executive of the Company in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO (the "Register") were as follows:

Name	Type of interest	Interest in shares and underlying shares held	Approximate percentage of the issued share capital	Notes
TCL Corp	Interest of controlled corporation	3,303,652,960	45.97%	1
Leung Lai Bing	Beneficial owner	576,835,000	8.03%	2
The MAG Foundation	Other	548,953,000	7.64%	3
Norrell Overseas Invest Ltd.	Beneficial owner	548,953,000	7.64%	3

Notes:

1. Under the SFO, TCL Corp was deemed to be interested in 3,303,652,960 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

2. Ms. Leung Lai Bing is deemed to be interested in (a) 550,323,000 shares of the Company among which 548,953,000 shares are held by Norrell Overseas Invest Ltd. as the beneficial owner for the benefit of the MAG Foundation and Ms. Leung is beneficially interested in the interest owned by the foundation, and 1,370,000 shares which are jointly held by Ms. Leung Lai Bing and her spouse, Mr. Wong Toe Yeung; and (b) 26,512,050 share options of the Company held by her spouse, Mr. Wong Toe Yeung.

Save as disclosed above, as at 31 December 2007, no persons, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2007, the Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) and continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) with TCL Corp (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules):

a) On 30 June 2005, a master manufacturing agreement was entered into between the Company and TCL Corp, pursuant to which the Group would provide manufacturing and/or value-added service to TCL Corp and its subsidiaries in respect of the products including but not limited to digital products, computer products, communication products, high frequency products and their relevant components which require manufacturing service. Further details of the said master manufacturing agreement were set out in the announcement of the Company dated 4 July 2005.

   During the year, the Group received nil consideration under this agreement.

b) On 31 July 2006, a lease agreement was entered into between TCL Tian Yi Mobile Communication (Shenzhen) Company Limited ("T&A Shenzhen", a wholly-owned subsidiary of the Company) and Shenzhen TCL Central R&D Co., Ltd. ("Industrial Institute", a subsidiary of TCL Corp), pursuant to which premises at Floors 8 and 15 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Company for office use. The term of the said lease agreement is from 1 July 2006 to 31 December 2008. Further details of the said lease agreement were set out in the announcement of the Company dated 31 July 2006.

   During the year, the total rental paid by T&A Shenzhen amounted to HK$2,161,000.

c) On 27 October 2006, a financial service framework agreement was entered into between the Company, TCL Corp and the Finance Company, pursuant to which the Company may from time to time utilize the financial services provided by the Finance Company including deposit services, finance services and other financial services. The terms of the said financial service framework agreement are from 27 October 2006 to 31 December 2008. Further details of the said financial service framework agreement were set out in the announcements of the Company dated 9 March 2006 and 27 October 2006 and the circular of the Company dated 27 March 2006.

   The said financial services framework agreement and the transactions of deposit services thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 13 April 2006.

   During the year, the maximum outstanding balance of deposits (including interest receivable in respect of the deposits) due to the Finance Company was HK$179,566,000 and no fee or commission in respect of other financial services has been paid by the Group.

d) On 29 December 2006, a brand promotion agreement was entered into between the Company and TCL Corp, pursuant to which the Group agreed to contribute a certain percentage of the Group's net sales (before value added tax) from the sale of mobile communication products bearing the "TCL" name and products sold for each of our financial quarters for a period of thirty-six calendar months effective on 1 March 2007 to the TCL Brand Common Fund.

Further details of the said brand promotion agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

The brand promotion agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 15 February 2007.

During the year, the Group contributed HK$4,350,000 under the agreement.

e) On 29 December 2006, a master supply agreement was entered into between the Company and TCL Corp regarding the following effective on 1 March 2007:

   i) purchase by the Group of imported raw materials through TCL Corp, only if at the request of the PRC subsidiaries of the Company, and resale of such goods to the PRC subsidiaries;

   ii) purchase by the Group of PRC manufactured raw materials from members of the TCL Group (other than the Group); and

   iii) sale by the Group of mobile communication products to members of the TCL Group (other than the Group).

   Further details of the said master supply agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

   The renewed master supply agreement and the transactions thereunder were duly approved by the shareholders of the company in an extraordinary general meeting held on 15 February 2007.

   During the year, the considerations paid and received by the Group for the abovementioned services (i), (ii) and (iii) are of HK$706,717,000, KH$99,484,000 and nil respectively under the agreement.

f) On 6 June 2007, an TD-SCDMA Technology Cooperation Agreement was entered into between JRD Communication (Shenzhen) Ltd. ("JRDC (Shenzhen)", an indirect wholly owned subsidiary of the Company) and TCL Corporation Technology Centre ("Technology Centre", a wholly-owned subsidiary of TCL Corporation) for terms of 3 years from the date of the abovementioned agreement. Pursuant to the abovementioned agreement, Technology Centre agrees to develop for JRDC (Shenzhen) the TD-SCDMA handset model with production scheduled in October 2007, whereas JRDC (Shenzhen) agrees to provide Technology Centre with access to a mobile communications platform and structural information of certain handset models, and arrange trial production and network entry testing of the TD-SCDMA handset model. Further details of the abovementioned agreement were set out in the announcement of the Company dated 3 July 2007.

During the year, the Group contributed HK$2,056,000 under the agreement.

g) On 10 September 2007, a Framework Agreement was entered into between TCT Mobile International Limited (a wholly owned subsidiary of the Company) and TTE Corporation ("TTE", a wholly owned subsidiary of TCL Multimedia Technology Holdings Limited), pursuant to which TTE Group agrees (i) to procure the materials from T&A; (ii) to manufacture, assemble and/or test the products, as well as provide related services pursuant to T&A's written specifications to be agreed with TTE Group from time to time and to deliver the products and (iii) to sell the products to T&A at the price, whereas T&A agrees (i) to supply the materials to TTE Group at cost and (ii) to purchase from TTE Group the products at the price.

The Framework Agreement is deemed to be effective on 1 September 2007 for a period of twenty-eight calendar months up to 31 December 2009.

Further details of the said Framework Agreement were set out in the announcement and circular of the Company dated 10 September 2007 and 27 September 2007.

The Framework Agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 17 October 2007.

During the year, the Group supplied HK$40,189,000 of raw materials to TTE and purchased HK$25,029,000 of products from TTE.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and in note 46 to the financial statements and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of the Group's business;

(ii) in accordance with the terms of the relevant agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iii) on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties.

Furthermore, the auditors of the Company have confirmed to the board of directors of the Company ("Board") that the above continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions;

(iii) have not exceeded the relevant caps disclosed in the prospectus or relevant announcement of the Company (where applicable); and

(iv) are in accordance with the pricing policies of the Group where the transactions involved provision of goods or services by the Group.

CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 25 to 36 in this annual report.

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 year under review.

SUFFICIENCY OF PUBLIC FLOAT

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

Report of the Directors

AUDIT COMMITTEE

The audited financial statements have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provision of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three members including Mr. Lau Siu Ki (Chairman), Mr. Shi Cuiming, independent non-executive Directors, and Mr. Bo Lianming, a non-executive Director.

AUDITORS

The accounts for the year ended 31 December 2007 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Li Dongsheng
Chairman

Hong Kong
29 February 2008

Independent Auditors' Report

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

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

We have audited the financial statements of TCL Communication Technology Holdings Limited set out on pages 57 to 151, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

Independent Auditors' Report

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

29 February 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	8	**4,971,081**	5,501,627
Cost of sales		**(4,123,975)**	(4,709,736)
Gross profit		**847,106**	791,891
Other income and gains	8	**70,722**	142,981
Research and development costs	9	**(173,343)**	(177,168)
Selling and distribution costs		**(336,954)**	(371,228)
Administrative expenses		**(330,643)**	(300,420)
Other operating expenses		**(1,510)**	(15,308)
Finance costs excluding interest on convertible bonds	10	**(16,185)**	(29,118)
Share of losses of an associate		**(16,943)**	(9,498)
		42,250	32,132
Changes in fair value of the derivative component of convertible bonds		**(10,041)**	–
Interest on convertible bonds	10	**(22,747)**	–
PROFIT BEFORE TAX	9	**9,462**	32,132
Tax	12	**23,601**	(16,709)
PROFIT FOR THE YEAR		**33,063**	15,423
Attributable to:			
Equity holders of the parent		**33,063**	15,423
DIVIDENDS			
Interim and final	14	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	15		
Basic		**0.5**	0.3
Diluted		**0.5**	0.3

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**252,934**	262,495
Prepaid land lease payments	17	**17,137**	11,219
Intangible assets	18	**38,997**	9,194
Deferred tax assets	36	**34,437**	10,640
Interest in an associate	21	**–**	130,301
Goodwill	19	**137,820**	–
Available-for-sale investment	23	**20,207**	20,207
Interest in a jointly controlled entity	22	**5,340**	–
Other non-current assets		**802**	590
Total non-current assets		**507,674**	444,646
CURRENT ASSETS			
Inventories	24	**461,495**	581,416
Trade receivables	25	**1,015,407**	1,113,198
Factored trade receivables	26	**199,652**	256,483
Notes receivable		**67,061**	60,252
Prepayments, deposits and other receivables		**329,238**	395,351
Due from related companies	46(b)	**35,630**	229,359
Tax recoverable		**33,210**	22,048
Pledged deposits	27	**958,738**	36,603
Cash and cash equivalents	27	**708,716**	531,001
Total current assets		**3,809,147**	3,225,711
CURRENT LIABILITIES			
Interest bearing bank borrowings	28	**838,791**	–
Trade and notes payables	29	**1,052,376**	1,212,670
Bank advances on discounted notes receivable and factored trade receivables		**199,652**	322,544
Forward contracts	30	**9,495**	–
Tax payable		**1,724**	–
Other payables and accruals		**551,654**	770,683
Provision for warranties	31	**71,358**	80,995
Due to related companies	46(b)	**167,842**	444,909
Total current liabilities		**2,892,892**	2,831,801
NET CURRENT ASSETS		**916,255**	393,910
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,423,929**	838,556

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,423,929**	838,556
NON-CURRENT LIABILITIES			
Retirement indemnities	34	**1,691**	496
Long service medals	35	**977**	403
Convertible notes	32	**–**	165,670
Convertible bonds	33	**368,838**	–
Total non-current liabilities		**371,506**	166,569
Net assets		**1,052,423**	671,987
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**718,689**	593,971
Shares held for Share Award Scheme	39	**(9,570)**	–
Equity component of convertible notes	32	**–**	19,430
Reserves	40(a)	**343,304**	58,586
Total equity		**1,052,423**	671,987

LI Dong Sheng
Director

LIU Fei
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the parent								
	Issued share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Contributed surplus HK$'000 (Note 40 (a))	Statutory reserves HK$'000 (Note 40 (a))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2006	296,888	1,140,835	7,737	19,430	232,555	119,951	1,335	(1,777,786)	40,945
Issue of shares and exercise of share options	297,083	297,219	(114)	–	–	–	–	–	594,188
Share issue expenses	–	(6,988)	–	–	–	–	–	–	(6,988)
Equity-settled share option arrangements	–	–	15,997	–	–	–	–	–	15,997
Exchange realignment and total income and expense for the year recognised directly in equity	–	–	–	–	–	–	12,422	–	12,422
Profit for the year	–	–	–	–	–	–	–	15,423	15,423
Total income and expense for the year	–	–	–	–	–	–	12,422	15,423	27,845
At 31 December 2006	593,971	1,431,066*	23,620*	19,430	232,555*	119,951*	13,757*	(1,762,363)*	671,987

	Attributable to equity holders of the parent										
	Issued share capital HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Awarded Shares reserve HK$'000	Share option reserve HK$'000	Equity component of convertible notes HK$'000	Contributed surplus HK$'000 (Note 40 (a))	Statutory reserves HK$'000 (Note 40 (a))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 January 2007	593,971	1,431,066	–	–	23,620	19,430	232,555	119,951	13,757	(1,762,363)	671,987
Issue of shares and exercise of share options	1,982	4,409	–	–	(2,127)	–	–	–	–	–	4,264
Conversion of convertible bonds	1,193	2,713	–	–	–	–	–	–	–	–	3,906
Redemption of convertible notes	–	–	–	–	–	(19,430)	–	–	–	–	(19,430)
Subscription for new shares for acquisition of a subsidiary	121,543	146,550	–	–	6,191	–	–	–	1,122	–	275,406
Equity-settled share option arrangements	–	–		–	21,225	–	–	–	–	–	21,225
Shares purchased for Share Award Scheme	–	–	(9,570)	3,766	–	–	–	–	–	–	(5,804)
Exchange realignment and total income and expense for the year recognised directly in equity	–	–	–	–	–	–	–	–	67,806	–	67,806
Profit for the year	–	–	–	–	–	–	–	–	–	33,063	33,063
Total income and expense for the year	–	–	–	–	–	–	–	–	67,806	33,063	100,869
At 31 December 2007	718,689	1,584,738*	(9,570)	3,766*	48,909*	–	232,555*	119,951*	82,685*	(1,729,300)*	1,052,423

* These reserve accounts comprise the consolidated reserves of approximately HK$343,304,000 (2006: HK$58,586,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,462**	32,132
Adjustments for:			
Share of losses of an associate		**16,943**	9,498
Deemed gain on dilution of an interest in an associate	8	**–**	(32,435)
Interest income	8	**(15,138)**	(12,760)
Finance costs	10	**38,932**	29,118
Depreciation	9	**107,342**	97,801
Prepaid land lease recognised	9	**709**	587
Amortisation of computer software and intellectual property	9	**7,698**	6,475
Amortisation of deferred development costs	9	**38,208**	–
Gain on disposal of items of property, plant and equipment	9	**(5,327)**	(19,293)
Loss on retirement and disposal of intangible assets		**–**	425
Equity-settled share option expenses	9	**21,225**	15,997
Shares held for Share Award Scheme expenses	9	**3,766**	–
Impairment loss/(write-back) of trade receivables and other receivables		**6,117**	(44,176)
Loss on forward contracts		**9,495**	–
Unrealised loss on changes in fair value of derivative component of convertible bonds		**10,041**	–
		249,473	83,369
Decrease in inventories		**119,921**	127,863
Decrease in trade receivables		**93,068**	39,985
(Increase)/decrease in notes receivable		**(6,809)**	310,841
Decrease/(increase) in factored trade receivables		**56,831**	(149,502)
Decrease in prepayments, deposits and other receivables		**304,574**	146,602
Decrease in amounts due from related companies		**180,546**	118,391
Decrease in trade and notes payables		**(160,294)**	(527,940)
Decrease in other payables and accruals		**(230,812)**	(193,060)
Decrease in provision for warranties		**(9,637)**	(27,299)
Decrease in amounts due to related companies		**(323,670)**	(129,276)
Increase/(decrease) in retirement indemnities		**1,056**	(412)
Increase/(decrease) in long service medals		**574**	(103)
Decrease in bank advances on discounted notes receivable and factored trade receivables		**(122,892)**	(87,357)
Cash generated from/(used in) operations		**151,929**	(287,898)
Interest paid		**(16,185)**	(26,319)
Net cash inflow/(outflow) from operating activities		**135,744**	(314,217)

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		**135,744**	(314,217)
CASH FLOWS FROM INVESTING ACTIVITIES			
Addition of prepaid land lease payments	17	**(8,339)**	–
Purchases of items of property, plant and equipment	16	**(70,451)**	(24,987)
Acquisition of intangible assets	18	**(34,495)**	(1,815)
Proceeds from disposal of intangible assets	18	**5,156**	–
Proceeds from disposal of items of property, plant and equipment		**34,097**	56,443
Acquisition of a subsidiary	41	**(298,954)**	–
Investment in an associate		**–**	(107,474)
Purchase of an available-for-sale investment	23	**–**	(20,207)
Investment in a jointly-controlled entity	22	**(5,340)**	–
Increase in other non-current assets		**(212)**	2,869
(Increase)/decrease in pledged deposits		**(922,135)**	17,714
Interest received		**15,138**	12,760
Net cash outflow from investing activities		**(1,285,535)**	(64,697)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by open offer and exercise of share options		**4,264**	594,188
Expenses for issuing new shares		**–**	(6,988)
Purchase of shares held for Share Award Scheme		**(9,570)**	–
Net proceeds from issue of convertible bonds		**338,149**	–
Convertible bonds issuance expenses		**1,807**	–
Subscription for new shares for acquisition of a subsidiary		**268,093**	–
Advance from ultimate controlling shareholder		**4,996,068**	2,562,941
Repayment of advance from ultimate controlling shareholder		**(4,982,885)**	(2,521,730)
Redemption of convertible notes	32	**(185,100)**	–
Repayment of bank loans		**–**	(123,016)
New bank loans		**838,791**	–
Net cash inflow from financing activities		**1,269,617**	505,395
NET INCREASE IN CASH AND CASH EQUIVALENTS		**119,826**	126,481
Cash and cash equivalents at beginning of year		**531,001**	405,755
Effect of foreign exchange rate changes, net		**57,889**	(1,235)
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**708,716**	531,001
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents		**708,716**	531,001

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	–	266
Intangible assets	18	–	5
Interest in an associate	21	–	107,474
Total non-current assets		–	107,745
CURRENT ASSETS			
Due from subsidiaries	20	**1,052,423**	671,987
Other receivables		**976**	979
Cash and cash equivalents	27	**1,243**	1,633
Total current assets		**1,054,642**	674,599
CURRENT LIABILITIES			
Trade payables	29	**417**	2,097
Due to related companies	46(b)	–	2,773
Due to subsidiaries		–	2
Due to an associate		–	6
Other payables and accruals		**2,854**	4,943
Total current liabilities		**3,271**	9,821
NET CURRENT ASSETS		**1,051,371**	664,778
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,051,371**	772,523
NON-CURRENT LIABILITIES			
Convertible notes	32	–	165,670
Convertible bonds	33	**368,838**	–
Net assets		**682,533**	606,853
EQUITY			
Issued capital	37	**718,689**	593,971
Shares held for Share Award Scheme	39	**(9,570)**	–
Equity component of convertible notes	32	–	19,430
Reserves	40(b)	**(26,586)**	(6,548)
Total equity		**682,533**	606,853

LI Dong Sheng
Director

LIU Fei
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacturing and sale of mobile phones and related components.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is TCL Corporation, a limited liability company registered in the People's Republic of China ("PRC") and listed in the Shenzhen Stock Exchange.

2. 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries and the Share Award Scheme Trust, a controlled special purpose entity are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2. BASIS OF PREPARATION (continued)

On 3 July 2007, the Board of the Group approved the Share Award Scheme ("Share Award Scheme") under which Awarded Shares may be awarded to employees of a subsidiary of the Group in accordance with the terms and conditions of the Share Award Scheme. Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, for the purposes of administering the Share Award Scheme and holding the Awarded Shares before they vest. As the Group has the power to govern the financial and operating policies of the Share Award Scheme Trust and derives benefits from the contributions of the employees who have been awarded the Awarded Shares through their continued employment with the Group, the Group is required to consolidate the Share Award Scheme Trust under the HKAS 27.

3. 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	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

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. These new disclosures are shown in note 48 to the financial statements.

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

(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.

Notes to Financial Statements

31 December 2007

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*HKFRS 2-Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

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 customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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

A joint venture is treated as:

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

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

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's interest in an associate.

The results of an associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in an associate is treated as non-current assets and is stated at cost less any impairment losses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item if property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Buildings	2.86%
Plant and machinery	10% to 20%
Furniture, fixtures, office and research and development equipment	20% to 33%
Motor vehicles	16.67% to 20%

Where parts of an item of property, plant and equipment have different lives, the cost of that item is allocated or a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life of five years.

Intellectual property

Purchased intellectual property is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life.

Research and development costs

All research costs are charged to the income statement as incurred.

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

Deferred development costs are stated at cost less any impairment losses and are amortised on a systematic basis with reference to projected revenue, ranging from 12 to 24 months, upon sales of related products.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contact that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Notes to Financial Statements

31 December 2007

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as “Other income” in accordance with the policies set out for “Revenue recognition” below. Losses arising from the impairment of such investments are recognised in the income statement as “Impairment losses on available-for-sale financial assets” and are transferred from the available-for-sale investment revaluation reserve.

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bonds; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value using the Black-Scholes model and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Inventories

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

Cash and cash equivalents

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

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Government grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant related to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

(c) subsidy income, when there is reasonable assurance that the subsidy will be received and all attaching conditions have been complied with; and

(d) value-added service income, upon provision of the relevant services.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 38. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Shares held for the Share Award Scheme

As disclosed in note 39 to the financial statements, the Group has set up a trust ("Trust") for Share Award Scheme, where the Trust purchases shares of the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for the Share Award Scheme" and is deducted from the Group's equity.

Central Pension Scheme

Subsidiaries operating in Mainland China have participated in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the income statement as they become payable in accordance with the rules of the CPS.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Mandatory Provident Fund

The Company's subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the Scheme except for the employer voluntary contributions, which are refunded to the Company and its subsidiaries which are incorporated outside the PRC when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Retirement indemnities

T&A Mobile Phones SAS ("T&A SAS") (formerly TCL & Alcatel Mobile Phones SAS), which is incorporated in France, operates a defined contribution plan (the "contribution plan") and a defined benefit pension plan (the "pension plan"). For the contribution plan, T&A SAS is not liable for any legal or constructive obligations under the contribution plan beyond the contributions paid, and no provision as such is made. For the pension plan, corresponding to retirement indemnities relating to T&A SAS's employees, liabilities and prepaid expenses are determined as follows:

- using the projected unit credit method, with the projected final salary, which considers that each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and

- recognising, over the expected average remaining working lives of the employees participating in the plan, actuarial gains and losses in excess of more than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below:

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment was approximately HK$252,934,000 (2006: HK$262,495,000). More details are set out in note 16.

Management carries out the impairment review on property, plant and equipment by comparing the lower of carrying amount and recoverable amount of property, plant and equipment.

An impairment loss is recognised when the carrying amount of property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. Management assesses the recoverable amount by the higher of the fair value less costs to sell and the expected value in use which is determined by the expected useful life and the expected discounted net cash flow of property, plant and equipment.

Warranty claims

The Group generally offers warranties for its products for 12 to 24 months. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated amount of approximately HK$7 million higher or lower in the year of 2008.

6. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was approximately HK$137,820,000 (2006: HK$8,785,000). More details are given in note 19.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning stratagem. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was HK$34,437,000 (2006: Nil). The amount of unrecognised tax losses at 31 December 2007 was HK$3,035,416,000 (2006: HK$3,157,139,000). Further details are contained in note 36 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 5 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2007, the best estimate of the carrying amount of capitalised development costs was HK$26,823,000 (2006: Nil).

7. 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 and assets are 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.

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7. SEGMENT INFORMATION (continued)

The following tables present revenue and assets for the Group's geographical segments.

	Europe Year ended 31 December		Latin America Year ended 31 December		The PRC (including Hong Kong) Year ended 31 December		Consolidated Year ended 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	**1,752,950**	1,979,172	**1,263,018**	1,533,940	**1,955,113**	1,988,515	**4,971,081**	5,501,627

	Europe 31 December		Latin America 31 December		The PRC (including Hong Kong) 31 December		Eliminations 31 December		Consolidated 31 December	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Other segment information:										
Segment assets	**681,922**	944,806	**696,478**	647,568	**5,971,206**	3,758,371	**(3,032,785)**	(1,680,388)	**4,316,821**	3,670,357
Capital expenditure	**1,314**	4,232	**3,668**	1,932	**108,303**	20,638	**-**	–	**113,285**	26,802

8. 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	2006
	HK$'000	HK$'000
Revenue		
Sale of mobile phones and related components	**4,971,081**	5,501,627
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	**6,259**	16,720
Other income and gains	**70,722**	142,981

* 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%.

9. PROFIT BEFORE TAX

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

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Cost of inventories sold		**4,123,975**	4,720,309
Depreciation	16	**107,342**	97,801
Prepaid land lease recognised	17	**709**	587
Amortisation of computer software and intellectual property	18	**7,698**	6,475
Research and development costs:			
Deferred expenditure amortised	18	**38,208**	–
Current year expenditure		**135,135**	177,168
		173,343	177,168
Brand management fee/TCL Brand Common Fund		**4,350**	4,744
Minimum lease payments under operating leases in respect of land and buildings		**19,426**	20,619
Auditors' remuneration		**4,714**	3,201
Employee benefits expense (including directors' remuneration (note 11)):			
Salaries and wages		**275,502**	299,576
Equity-settled expenses:			
Share options		**21,225**	15,997
Share Award Scheme expense		**3,766**	–
Pension scheme contributions:			
Defined contribution scheme		**14,962**	19,266
Defined benefit schemes (note 34)		**1,056**	(454)
		316,511	334,385
Impairment loss/(write back) of trade receivables*	25	**4,723**	(26,119)
Impairment loss/(write-back) of other receivables		**1,394**	(18,056)
Product warranty provisions	31	**130,221**	102,502
Gain on disposal of items of property, plant and equipment		**(5,327)**	(19,293)

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

10. 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	**3,453**	5,553
Finance costs excluding interest on convertible bonds	**16,185**	29,118
Interest on convertible bonds**	**22,747**	–
Total finance costs	**38,932**	29,118

* 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%.

11. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees	**1,186**	1,195
Other emoluments:		
Salaries, allowances and benefits in kind	**1,573**	1,460
Employee share option benefits	**3,586**	2,824
Pension scheme contributions	**24**	24
	6,369	5,503

During 2006 and 2007, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements and the Report of the Directors. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Mr. Shi Cuiming	**180**	180
Mr. Liu Chunglaung (appointed on 30 May 2007)	**105**	–
Mr. Lau Siu Ki	**180**	180
Mr. Wang Chongju (retired on 30 May 2007)	**75**	180
	540	540

11. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Independent non-executive directors (continued)

During 2006 and 2007, all independent non-executive directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 38 to the financial statements. The fair value of such options and other share options granted to the independent non-executive directors, which has been recognised in the income statement over the vesting period was determined as at the date of the grant and the amount of HK$35,000 (2006: HK$147,000) recognised in the income statement for the current year is included in the above directors' remuneration disclosures.

(b) Executive directors, non-executive directors and the five highest paid employees

2007	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Mr. Li Dongsheng	130	–	641	6	777
Dr. Liu Fei	130	1,530	1,340	12	3,012
Mr. Yan Yong (retired on 18 December 2007)	130	–	–	6	136
Mr. Wong Toe Yeung, Chambers (appointed on 30 May 2007)	76	–	641	–	717
Mr. Yu Enjun (appointed on 18 December 2007)	5	43	663	–	711
Non- executive directors:					
Mr. Wang Kangping (retired on 30 May 2007)	50	–	–	–	50
Dr. Zhao Zhicheng (retired on 30 May 2007)	50	–	–	–	50
Mr. Bo Lianming (appointed on 30 May 2007)	70	–	155	–	225
Mr. Huang Xubin (appointed on 18 December 2007)	5	–	111	–	116
	646	1,573	3,551	24	5,794

11. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the five highest paid employees (continued)

2006	Fees	Salaries, allowances and benefits in kind	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Mr. Li Dongsheng	120	10	685	6	821
Dr. Liu Fei	120	1,440	658	12	2,230
Mr. Yan Yong	120	10	123	6	259
Mr. Yuan Xin Cheng (resigned on 8 June 2006)	–	–	298	–	298
Mr. Du Xiaopeng, Simon (retired on 8 June 2006)	53	–	–	–	53
Dr. Guo Aiping, George (retired on 8 June 2006)	53	–	–	–	53
Mr. Wong Toe Yeung, Chambers (retired on 8 June 2006)	53	–	685	–	738
Non-executive directors:					
Mr. Wang Kangping (appointed on 8 June 2006)	68	–	155	–	223
Dr. Zhao Zhicheng (appointed on 8 June 2006)	68	–	73	–	141
	655	1,460	2,677	24	4,816

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

The five highest paid employees during the year included one (2006: one) director, details of whose remuneration are set out above.

11. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the five highest paid employees (continued)

Details of the remuneration of the remaining four (2006: four) non-director, highest paid employees for the year are as follows:

	2007 HK$'000	2006 HK$'000
Salaries, allowances and benefits in kind	**7,460**	6,461
Employee share option benefits	**2,014**	917
Awarded share expense	**–**	–
Pension scheme contributions	**–**	–
	9,474	7,378

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

	Number of non-directors and employees	
	2007	2006
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**2**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	4	4

During 2006 and 2007, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 38 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year was included in the above non-director, highest paid employees' remuneration disclosures.

12. TAX

Group:

	2007 HK$'000	2006 HK$'000
Current year provision:		
France	–	1,029
Mexico	–	17,192
Deferred (note 36)		
The PRC	**(20,532)**	–
Mexico	**(3,069)**	(1,512)
Tax (credit)/charge for the year	**(23,601)**	16,709

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.

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.

12. TAX (continued)

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 Telefones 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.

12. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the countries in which the Company and the majority of its subsidiaries, are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e. the statutory tax rate) to the effective tax rate, are as follows:

	2007		2006	
	HK$'000	**%**	HK$'000	%
Profit before tax	**9,462**		32,132	
Tax at the applicable rates	**52,164**	**551.3**	81,416	253.4
Lower tax rate for specific provinces or local authority	**(48,532)**	**(512.9)**	(60,447)	(188.1)
Income not subject to tax	**(19,895)**	**(210.3)**	(29,212)	(90.9)
Expenses not deductible for tax	**69,707**	**736.7**	59,720	185.8
Tax losses utilised	**(121,723)**	**(1,286.4)**	(127,438)	(396.6)
Tax losses not recognised	**44,678**	**472.2**	92,670	288.4
Tax (credit)/charge at the Group's effective rate	**(23,601)**	**(249.4)**	16,709	52.0

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a loss of HK$196,684,000 (2006: HK$402,254,000) which has been dealt with in the financial statements of the Company (note 40(b)).

14. DIVIDENDS

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

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

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

	2007	2006
	HK$'000	HK$'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**33,063**	15,423

	Number of shares	
	2007	2006
Shares		
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	**70,129,104**	46,831,228
	6,643,022,838	5,556,112,123

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.

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16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007					
At 31 December 2006 and at 1 January 2007:					
Cost	92,453	423,527	48,843	6,705	571,528
Accumulated depreciation and impairment	(9,862)	(260,551)	(34,789)	(3,831)	(309,033)
Net carrying amount	82,591	162,976	14,054	2,874	262,495
At 1 January 2007, net of accumulated depreciation and impairment	82,591	162,976	14,054	2,874	262,495
Additions	305	45,298	24,004	844	70,451
Acquisition of subsidiaries (note 41)	–	6,800	42,108	1,290	50,198
Disposals	(21,044)	(26,339)	(6,558)	(1,374)	(55,315)
Depreciation and impairment provided during the year	(3,042)	(88,006)	(15,065)	(1,229)	(107,342)
Written back on disposals	2,340	18,429	4,403	1,374	26,546
Transfers	–	–	–	–	–
Exchange realignments	4,833	10,361	(9,419)	126	5,901
At 31 December 2007, net of accumulated depreciation and impairment	65,983	129,519	53,527	3,905	252,934
At 31 December 2007:					
Cost	77,706	490,184	132,926	8,649	709,465
Accumulated depreciation and impairment	(11,723)	(360,665)	(79,399)	(4,744)	(456,531)
Net carrying amount	65,983	129,519	53,527	3,905	252,934

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures , office equipment and research and development equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	90,119	472,778	78,723	12,533	2,636	656,789
Accumulated depreciation and impairment	(6,508)	(227,712)	(54,528)	(7,892)	–	(296,640)
Net carrying amount	83,611	245,066	24,195	4,641	2,636	360,149
At 1 January 2006, net of accumulated depreciation and impairment	83,611	245,066	24,195	4,641	2,636	360,149
Additions	–	16,134	6,675	2,178	–	24,987
Disposals	(845)	(87,269)	(39,174)	(8,316)	–	(135,604)
Depreciation and impairment provided during the year	(3,180)	(85,912)	(7,487)	(1,222)	–	(97,801)
Written back on disposals	121	63,865	28,944	5,524	–	98,454
Transfers	–	2,677	–	–	(2,677)	–
Exchange realignments	2,884	8,415	901	69	41	12,310
At 31 December 2006, net of accumulated depreciation and impairment	82,591	162,976	14,054	2,874	–	262,495
At 31 December 2006:						
Cost	92,453	423,527	48,843	6,705	–	571,528
Accumulated depreciation and impairment	(9,862)	(260,551)	(34,789)	(3,831)	–	(309,033)
Net carrying amount	82,591	162,976	14,054	2,874	–	262,495

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	260	476	–	736
Accumulated depreciation	(259)	(211)	–	(470)
Net carrying amount	1	265	–	266
At 1 January 2007, net of accumulated depreciation	1	265	–	266
Transfer to a subsidiary	–	(234)	–	(234)
Depreciation provided during the year	(1)	(31)	–	(32)
At 31 December 2007, net of accumulated depreciation	–	–	–	–
At 31 December 2007:				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net carrying amount	–	–	–	–
31 December 2006				
At 31 December 2005 and at 1 January 2006:				
Cost	260	532	429	1,221
Accumulated depreciation	(171)	(128)	(100)	(399)
Net carrying amount	89	404	329	822
At 1 January 2006, net of accumulated depreciation	89	404	329	822
Disposals	–	(56)	(429)	(485)
Depreciation provided during the year	(88)	(105)	(7)	(200)
Depreciation written back on disposals	–	22	107	129
At 31 December 2006, net of accumulated depreciation	1	265	–	266
At 31 December 2006:				
Cost	260	476	–	736
Accumulated depreciation	(259)	(211)	–	(470)
Net carrying amount	1	265	–	266

17. PREPAID LAND LEASE PAYMENTS

	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 January	**11,219**	11,400
Additions	**8,339**	–
Recognised during the year	**(709)**	(587)
Exchange realignment	**(1,712)**	406
Carrying amount at 31 December	**17,137**	11,219

As at 31 December 2007, the Group's land and buildings situated in Mainland China are held under long-term land use rights.

18. INTANGIBLE ASSETS

Group

	Deferred development costs	**Computer software**	**Intellectual property**	**Golf club membership**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2007					
Cost at 1 January 2007, net of accumulated amortisation	–	2,059	7,135	–	9,194
Additions	27,479	5,253	646	1,117	34,495
Acquisition of a subsidiary (note 41)	37,657	6,349	–	–	44,006
Retirements and disposals	–	–	(5,156)	–	(5,156)
Amortisation provided during the year	(38,208)	(4,527)	(3,171)	–	(45,906)
Exchange realignment	(105)	1,766	703	–	2,364
At 31 December 2007	26,823	10,900	157	1,117	38,997
At 31 December 2007:					
Cost	65,136	15,382	2,625	1,117	84,260
Accumulated amortisation	(38,313)	(4,482)	(2,468)	–	(45,263)
Net carrying amount	26,823	10,900	157	1,117	38,997

18. INTANGIBLE ASSETS (continued)

Group

	Computer software HK$'000	Intellectual property HK$'000	Total HK$'000
31 December 2006			
Cost at 1 January 2006, net of accumulated amortisation	2,787	10,754	13,541
Additions	1,815	–	1,815
Disposals	(425)	–	(425)
Amortisation provided during the year	(2,394)	(4,081)	(6,475)
Exchange realignment	276	462	738
At 31 December 2006	2,059	7,135	9,194
At 31 December 2006:			
Cost	15,850	24,271	40,121
Accumulated amortisation	(13,791)	(17,136)	(30,927)
Net carrying amount	2,059	7,135	9,194

Company

	Computer software HK$'000
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation	5
Amortisation provided during the year	(1)
Disposal during the year	(4)
At 31 December 2007	–
At 31 December 2007:	
Cost	–
Accumulated amortisation	–
Net carrying amount	–

18. INTANGIBLE ASSETS (continued)

Company

	Computer software HK$'000
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	7
Amortisation provided during the year	(2)
At 31 December 2006	5
At 31 December 2006:	
Cost	10
Accumulated amortisation	(5)
Net carrying amount	5

19. GOODWILL

Group

	HK$'000
Cost at 1 January 2007 (transfer from interest in associate)	8,785
Acquisition of a subsidiary (note 41)	129,035
Impairment during the year	–
Cost at 31 December 2007	137,820
At 31 December 2007:	
Cost	137,820
Accumulated impairment	–
Net carrying amount	137,820

19. GOODWILL (continued)

Goodwill acquired through business combinations has been allocated to the mobile handsets cash-generating unit for impairment testing.

The recoverable amount of mobile handsets cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 7% and cash flows within the five-year period extrapolated using a growth rate of 8% of revenue.

Key assumptions were used in the value in use calculation of the mobile handsets cash-generating units for 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Income represented (i) royalty income from the company for the research and development of mobile handsets which are manufactured in the PRC; and (ii) recurring engineering service fee from the company for the research and development of mobile handsets which are manufactured overseas.

(b) Annual growth of sales volume of mobile handsets

(c) Expenses growth rate

(d) Additions of property, plant and equipment per annum are approximately equal to the rate of depreciation of property, plant and equipment.

(e) According to the income tax law of PRC on the newly established high technology software enterprises, the cash-generating unit is entitled to exemption from the PRC corporate income tax for two years commencing from 2007 and thereafter is entitled to a 50% preferential tax treatment for the subsequent three years as being a newly established high technology software enterprise.

(f) No dividend is paid from years 2007 to 2010.

(g) Discount rates — the discount rates used are before tax and reflect specific risks relating to the relevant units.

(h) The cash-generating unit is entitled to VAT refund on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17% up to year 2010.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**1,661,641**	1,248,039
Due from subsidiaries	**1,536,830**	1,433,911
Impairment loss of interests in subsidiaries	**(2,146,048)**	(2,009,963)
	1,052,423	671,987

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

The movements in impairment loss of interest in subsidiaries are as follows:

	Company	
	2007	2006
	HK$'000	HK$'000
At 1 January	**2,009,963**	1,641,848
Impairment loss recognised	**136,085**	368,115
	2,146,048	2,009,963

Impairment loss of interest in subsidiaries is provided based on the net asset value of the Group.

20. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation/ operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest		Principal Activities
			Direct	Indirect	
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Trading of mobile phone components
Huizhou TCL Mobile Communication Co., Ltd. (Note (i))	The PRC 29 March 1999	US$79,600,000	–	100%	Manufacturing and sale of mobile phones
TCL Mobile Communication (Hohhot) Co., Ltd.	The PRC 29 April 2002	RMB30,000,000	–	100%	Manufacturing and sale of mobile phones
TCT Mobile Limited (formerly known as "T&A Mobile Phones Limited")	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Manufacturing and sale of mobile phones
T&A Mobile Phones SAS	France 1 January 2004	EUR87,540,000	–	100%	Development and distribution of mobile phones
T&A Mobile Phones S.A. de C.V. Limited (Note (ii))	Mexico 24 May 2004	US$4,300	–	100%	Distribution of mobile phones
TCT Mobile Suzhou Limited (Note (i))	The PRC 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile phones
TCT Mobile International Limited (formerly known as "T&A Mobile Phones International Limited")	Hong Kong 11 May 2005	HK$1	–	100%	Development and distribution of mobile phones
JRD Communication Inc. (Note (ii))	British Virgin Islands 8 September 2005	HK$24,000,000	100%	–	Provision of product design and development services

20. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ operations	Nominal value of issued and fully paid share capital	Percentage of attributable equity interest		Principal Activities
			Direct	Indirect	
JRD Communication (Hong Kong) Limited (Note (ii))	Hong Kong 3 April 2006	HK$10,000	–	100%	Software development for mobile handsets
JRD Communication (Shenzhen) Limited (Notes (i), (ii))	The PRC 14 February 2006	US$10,000,000	–	100%	Software development for mobile handsets

Notes:

(i) This is a wholly foreign owned enterprise.

(ii) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

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21. INTEREST IN AN ASSOCIATE

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**–**	–	**–**	107,474
Share of net assets	**–**	121,516	**–**	–
Goodwill on acquisition	**–**	8,785	**–**	–
	–	130,301	**–**	107,474

Particulars of the associate is as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
JRD Communication Inc.	Ordinary shares of HK$0.1 each	British Virgin Islands	38.54%	Provision of product design and development services

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associate extracted from their management accounts:

	2007	2006
	HK$'000	HK$'000
Assets	**–**	357,697
Liabilities	**–**	42,399
Revenue	**–**	46,344
Loss	**–**	45,743

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net assets	**5,340**	–	**–**	–
	5,340	–	**–**	–

Particulars of the jointly controlled entity is as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal
Huizhou Cellutel Communication Limited	Ordinary share of RMB1 each	The PRC	50%	Manufacturing and sale of mobile phones

* Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's jointly controlled entity extracted from their management accounts:

	2007	2006
	HK$'000	HK$'000
Assets	**10,708**	–
Liabilities	**27**	–
Revenue	**–**	–
Loss	**–**	–

23. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investment, at fair value	**20,207**	20,207

The above investment consists of an investment in equity securities which was designated as available-for-sale financial assets and has no fixed maturity date or coupon rate.

24. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**255,103**	345,417
Work in progress	**4,797**	18,450
Finished goods	**261,147**	384,751
	521,047	748,618
Provision against inventory obsolescence and net realised value	**(59,552)**	(167,202)
	461,495	581,416

25. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**1,022,774**	1,131,136
Impairment	**(7,367)**	(17,938)
	1,015,407	1,113,198

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

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**17,938**	44,057
Charge for the year/(write back of trade receivables)	**4,723**	(26,119)
Amount written off as uncollectible	**(15,294)**	–
	7,367	17,938

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$7,367,000 (2006: HK$17,938,000) with a carrying amount of HK$12,624,000 (2006: HK$41,517,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

25. TRADE RECEIVABLES (continued)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**625,698**	775,463
Less than 1 month past due	**208,995**	237,146
1 to 3 months past due	**105,064**	66,986
4 to 12 months past due	**67,868**	6,226
over 12 months past due	**2,525**	3,798
	1,010,150	1,089,619

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

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

26. FACTORED TRADE RECEIVABLES

At 31 December 2007, a subsidiary of the Group factored trade receivables of HK$199,652,000 (2006: HK$256,483,000) to banks on a with recourse basis for cash. As the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet. Maturity date ranges from 30 to 120 days. No impairment is made o n the factored trade receivables.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current	**141,875**	160,360
Within 1 month	**14,132**	13,709
1 to 2 months	**28,567**	41,402
2 to 3 months	**9,932**	23,645
Over 3 months	**5,146**	17,367
	199,652	256,483

27. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**708,716**	531,001	**1,243**	1,633
Pledged deposits	**958,738**	36,603	**–**	–
	1,667,454	567,604	**1,243**	1,633
Less: Pledged deposits:				
- for factored trade receivables (note 26)	**(178,587)**	(36,603)	**–**	–
- for interest bearing bank borrowings	**(780,151)**	–	**–**	–
Cash and cash equivalents	**708,716**	531,001	**1,243**	1,633

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,277,719,000 (2006: HK$135,922,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

28. INTEREST BEARING BANK BORROWINGS

	Group	
	2007	2006
	HK$'000	HK$'000
Bank borrowings, wholly repayable within one year:		
Secured	**838,791**	–

The Group's secured borrowings are bank advances and secured by the pledge of certain of the Group's time deposits amounting to HK$780,151,000 as stated in note 27.

29. 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:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 6 months	**1,050,623**	1,138,334	**417**	2,097
7 to 12 months	**1,251**	65,618	**–**	–
More than 1 year	**502**	8,718	**–**	–
	1,052,376	1,212,670	**417**	2,097

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.

30. FORWARD CONTRACTS

The Group has entered into various forward currency contracts to mange its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging forward contracts amounting to HK$9,495,000 were charged to the income statement during the year. (2006: Nil)

31. PROVISION FOR WARRANTIES

The movement of provision for warranties during the year is summarised as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At beginning of year	**80,995**	108,294
Provision	**130,221**	102,502
Utilised	**(143,715)**	(133,751)
Exchange difference	**3,857**	3,950
At end of year	**71,358**	80,995

The Group generally provides warranties of one to two years to its customers on all products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision of warranties was not discounted, as the effect of discounting was not material.

32. CONVERTIBLE NOTES

On 11 May 2005, the Company entered into the subscription agreement with TCL Corporation, its ultimate controlling shareholder, for the issue of an aggregate of Eur 20,000,000 principal amount (equivalent to HK$185,100,000) of 3% Convertible Notes ("CN") to TCL Corporation. The CN was issued on 29 July 2005. The CN has a term of three years and TCL Corporation has the right to convert the CN at the conversion price of HK$0.58175 per share in whole or in part in the principal amount into ordinary shares in amounts of not less than HK$10,000,000 on each conversion. Subsequent to the open offer completed on 27 February 2006, the conversion price of CN is adjusted to HK$0.528324 per share.

The Company has the option to redeem, in whole or any part, the CN at 100% of their principal amount plus interest accrued to but excluding the date of redemption after 24 months from the issue date.

On 9 August 2007, the Group redeemed in whole of the CN at 100% of their principal amount plus interest accrued to (and including) 8 August 2007 and settled the repayment by cash accordingly.

The convertible notes have been split as to the liability and equity components, as follows:

	2007 **HK$'000**	2006 HK$'000
Nominal value of convertible notes issued	**–**	185,100
Equity component	**–**	(19,430)
Liability component at the issuance date	**–**	165,670
Interest expense	**–**	5,553
Interest paid	**–**	(2,799)
Liability component at 31 December	**–**	168,424

33. 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.

33. 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

	Parameter	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

	Parameter	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%

33. CONVERTIBLE BONDS (continued)

Fair value of conversion option (continued)

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

	Parameter	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

	Parameter	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

	Parameter	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%

(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%

33. CONVERTIBLE BONDS (continued)

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:

	US$'000	Equivalent to HK$'000
Liability component	26,403	205,978
Derivative component	20,877	162,860
Carrying value of convertible bonds	47,280	368,838
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.

34. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the defined benefit scheme plan for the year ended 31 December 2007 amounted to HK$1,691,000 (2006: HK$496,000).

	Group	
	2007	2006
	HK$'000	HK$'000
Present value of fund obligation	**1,691**	496
Unrealised actuarial losses	**–**	–
Retirement indemnities	**1,691**	496

Movements of retirement indemnities are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of year	**496**	908
Benefit expenses recognised/(reversed) in the consolidated results (note 9)	**1,056**	(454)
Exchange realignment	**139**	42
Balance at end of year	**1,691**	496

The Group does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the defined benefit plan are as follows:

	Group	
	2007	2006
Discount rate	**5.25%**	4.5%
Future salary increase per annum	**5.0%**	5.0%

35. LONG SERVICE MEDALS

T&A Mobile Phones SAS provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to T&A Mobile Phones SAS to the balance sheet date.

36. DEFERRED TAX ASSETS

Group

	Tax losses	Advertising and promotion accruals	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2007	8,282	2,358	10,640
Exchange realignment	184	12	196
Deferred tax credited to the income statement during the year (note 12)	23,601	–	23,601
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2007	32,067	2,370	34,437

At 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group had unrecognised tax losses of HK$1,708,332,000 (will expire in 2010) is related to the subsidiaries in PRC and HK$1,327,084,000 (will be infinite expiration) is related to a subsidiary in France as at 31 December 2007 (2006: HK$1,855,472,000 is related to the subsidiaries in PRC and HK$1,301,667,000 is related to the subsidiaries in France) carried forward for offsetting against future taxable profits of the companies in which the losses arose.

	Product warranty provision	Provision for obsolete stock	Impairment for fixed assets	Tax losses	Advertising and promotion accruals	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	3,630	4,524	242	419	–	8,815
Exchange realignment	128	159	9	14	3	313
Deferred tax credited/(charged) to the income statement during the year (note 12)	(3,758)	(4,683)	(251)	7,849	2,355	1,512
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2006	–	–	–	8,282	2,358	10,640

37. SHARE CAPITAL

	No. of shares	HK$'000
Authorised:		
Ordinary shares of HK$0.1 each at 1 January 2006	5,000,000,000	500,000
Increase during the year	3,000,000,000	300,000
Ordinary shares of HK$0.1 each at 31 December 2006	8,000,000,000	800,000
Increase during the year	12,000,000,000	1,200,000
Ordinary shares of HK$0.1 each at 31 December 2007	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 2006	2,968,875,000	296,888
Shares allotted and issued pursuant to the completion of open offer	2,968,875,000	296,887
Share options exercised	1,962,052	196
At 31 December 2006 and at 1 January 2007	5,939,712,052	593,971
Share options exercised (note 38)	19,825,330	1,982
Convertible bonds converted	11,927,328	1,193
Subscription for new shares due to acquisition of a subsidiary	1,215,430,000	121,543
At 31 December 2007	7,186,894,710	718,689

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

– Pursuant to an extraordinary resolution passed on 20 April 2007, the authorised share capital of the Company was increased from HK$800,000,000 to HK$2,000,000,000 by the creation of 12,000,000,000 additional unissued shares of HK$0.1 each.

– The Company issued 19,825,330 ordinary shares of HK$0.10 each under the share option scheme of the Company at the subscription price ranging from HK$0.2108 to HK$0.232 per share.

– The bondholders converted 11,927,328 ordinary shares at a price of HK$0.3275 per share.

– The Company issued 1,215,430,000 ordinary shares of HK$0.10 each for the proceeds of which were made the acquisition of a subsidiary. Please refer to note 41 for details.

Shares issued during the year rank pari passu with the then existing shares in all respects.

38. SHARE OPTION SCHEME

The Company has adopted the share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include employees (including executive and non-executive directors), advisers, consultants, agents, contractors, clients, suppliers, and any other person(s) whom the board of directors of the Company in its sole discretion considers has contributed or may contribute to the Group. The share option scheme became effective on 27 September 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the share option scheme (as refreshed by shareholders' approval dated 6 February 2006) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 6 February 2006 (i. e. up to 296,887,500 shares). The maximum number of shares issuable under share options to each eligible participant in the share option scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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31 December 2007

38. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the share option scheme of the Company during the year:

	Number of share options										Price of the Company's shares	
Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Re-classified	At 31 December 2007	Date of grant	Exercise period (both dates inclusive) (Notes 4, 5, 6 and 7)	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Immediately before the exercise date (HK$)	At exercise date of options (HK$)
Directors												
Mr. LI Dongsheng	5,454,550	–	–	–	–	5,454,550	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	5,000,000	–	–	–	–	5,000,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	5,000,000	–	–	–	–	5,000,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	11,057,499	–	–	–	11,057,499	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	15,454,550	11,057,499	–	–	–	26,512,049						
Mr. LIU Fei	1,745,456	–	–	–	–	1,745,456	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	7,900,000	–	–	–	–	7,900,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	15,500,000	–	–	–	–	15,500,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	22,114,998	–	–	–	22,114,998	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	25,145,456	22,114,998	–	–	–	47,260,454						
Mr. YAN Yong (Note 2)	1,145,456	–	–	–	(1,145,456)	–	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	1,000,000	–	–	–	(1,000,000)	–	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	2,145,456	–	–	–	(2,145,456)	–						
Mr. YU Enjun (Note 3)	–	–	–	–	1,036,365	1,036,365	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	–	–	–	–	8,550,000	8,550,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	–	–	–	–	5,500,000	5,500,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	11,258,544	–	–	–	11,258,544	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	–	11,258,544	–	–	15,086,365	26,344,909						
Mr. BO Lianming (Note 1)	–	–	–	–	818,183	818,183	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	–	5,629,300	–	–	–	5,629,300	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	–	5,629,300	–	–	818,183	6,447,483						

38. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the share option scheme of the Company during the year (continued):

Name or category of participant	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Re-classified	At 31 December 2007	Date of grant	Exercise period (both dates inclusive) (Notes 4, 5, 6 and 7)	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Price of the Company's shares: Immediately before the exercise date (HK$)	At exercise date of options (HK$)
Mr. HUANG Xubin	–	–	–	–	654,546	654,546	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
(Note 3)	–	–	–	–	800,000	800,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	2,735,000	–	–	–	2,735,000	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	–	2,735,000	–	–	1,454,546	4,189,546						
Mr. WANG Kangping	1,527,274	–	–	–	(1,527,274)	–	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
(Note 2)	1,500,000	–	–	–	(1,500,000)	–	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	3,027,274	–	–	–	(3,027,274)	–						
Mr. ZHAO Zhicheng	654,546	–	–	–	(654,546)	–	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
(Note 2)	1,000,000	–	–	–	(1,000,000)	–	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	1,654,546	–	–	–	(1,654,546)	–						
Mr. LAU Siu Ki	327,273	–	–	–	–	327,273	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	800,000	–	–	–	–	800,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	1,127,273	–	–	–	–	1,127,273						
Mr. SHI Cuiming	327,273	–	–	–	–	327,273	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	800,000	–	–	–	–	800,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	1,127,273	–	–	–	–	1,127,273						
Mr. WANG Chongju	327,273	–	–	–	(327,273)	–	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	800,000	–	–	–	(800,000)	–	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	1,127,273	–	–	–	(1,127,273)	–						

38. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the share option scheme of the Company during the year (continued):

	Number of share options										Price of the Company's shares	
Name or category of participant	At 1 January 2007	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Re-classified	At 31 December 2007	Date of grant	Exercise period (both dates inclusive) (Notes 4, 5, 6 and 7)	Exercise price (HK$)	Closing price immediately before the date of grant (HK$)	Immediately before the exercise date (HK$)	At exercise date of options (HK$)
Mr. WONG Toe Yeung (Note 1)	–	–	–	–	5,454,550	5,454,550	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	–	–	–	–	5,000,000	5,000,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	–	–	–	–	5,000,000	5,000,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	11,057,499	–	–	–	11,057,499	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
	–	11,057,499	–	–	15,454,550	26,512,049						
Sub-total	50,809,101	63,852,840	–	–	24,859,095	139,521,036						
Employees	30,641,840	–	–	(4,034,552)	(1,036,365)	25,570,923	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	92,406,999	–	(11,913,332)	(3,855,667)	7,400,000	84,038,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	167,160,000	–	(2,575,999)	(11,487,335)	(5,500,000)	147,596,666	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	274,447,072	–	–	–	274,447,072	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
Sub-total	290,208,839	274,447,072	(14,489,331)	(19,377,554)	863,635	531,652,661						
Those who have contributed or	53,198,228	–	(58,000)	(9,223,644)	(3,272,730)	40,643,854	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
may contribute	46,368,000	–	(4,277,999)	(2,752,001)	(19,150,000)	20,188,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
to the Group	16,000,000	–	(1,000,000)	(450,000)	(3,300,000)	11,250,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	–	64,126,800	–	–	–	64,126,800	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
Sub-Total	115,566,228	64,126,800	(5,335,999)	(12,425,645)	(25,722,730)	136,208,654						
Total	456,584,168	402,426,712	(19,825,330)	(31,803,199)	–	807,382,351						

38. SHARE OPTION SCHEME (continued)

Notes:

1. Mr. Bo Lianming and Mr. Wong Toe Yeung were appointed as non-executive Director and executive Director respectively on 30 May 2007 and their share options under the share option scheme were reclassified under "Directors".

2. Mr. Wang Kangping and Mr. Zhao Zhicheng retired as non-executive Directors of the Company on 30 May 2007. The share options of Mr. Wang Kangping and Mr. Zhao Zhicheng under the share option scheme were re-classified under "Those who have contributed or may contribute to the Group". Mr. Yan Yong retired as executive Director of the Company on 18 December 2007 and his share options were reclassified under "Those who have contributed or may contribute to the Group".

3. Mr. Yu Enjun and Mr. Huang Xubin were appointed as executive Director and non-executive Director of the Company respectively on 18 December 2007 and their share options under the share option scheme were reclassified under "Directors".

4. The share options granted on 31 May 2005 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 May 2010. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

5. The share options granted on 16 January 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 15 January 2011. One-third of such share options are exercisable after the expiry of 6 months from the date of grant, a further one-third is exercisable after the expiry of 12 months from the date of grant, and the remaining one-third is exercisable after the expiry of 18 months from the date of grant.

6. The share options granted on 30 June 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 30 June 2011. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant.

7. The share options granted on 5 July 2007 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 4 July 2012. One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant.

38. SHARE OPTION SCHEME (continued)

Notes (continued):

8. The fair value of the options granted in the current year totalled approximately HK$23,704,540. The following assumptions were used to derive the fair value, using a binomial model:

Options granted on 31 May 2005

		At grant date	Modification on 3 July 2007
(i)	Exercise period	1 March 2006 to 30 November 2008	1 March 2006 to 30 May 2010
(ii)	Expected volatility	50% per annum	57% per annum
(iii)	Estimated average life	2.89 years	1.27 years
(iv)	Average risk-free interest rate	3.13% per annum	4.383% per annum
(v)	Early exercise assumption	When the share price is at least 200% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum	
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and a rate of 15% per annum thereafter	30% per annum for the first year after the grant date and a rate of 25% per annum thereafter

38. SHARE OPTION SCHEME (continued)

Notes (continued):

Options granted on 16 January 2006

		At grant date	Modification on 30 June 2006		Modification on 3 July 2007	
(i)	Exercise period	17 July 2006 to 15 January 2008	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010	17 July 2006 to 15 January 2011	17 July 2006 to 15 January 2011
(ii)	Expected volatility	50% per annum	50% per annum	55% per annum	39% per annum	38% per annum
(iii)	Estimated average life	1.72 years	1.25 years	2.46 years	1.08 years	1.13 years
(iv)	Average risk-free interest rate	3.66% per annum	4.48% per annum	4.56% per annum	4.44% per annum	4.44% per annum
(v)	Early exercise assumption	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum				
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and a rate of 15% per annum thereafter			30% per annum for the first year after the grant date and a rate of 25% per annum thereafter	

Options granted on 30 June 2006

		At grant date			Modification on 3 July 2007		
(i)	Exercise period	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010	1 April 2007 to 30 June 2008	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011	1 April 2007 to 30 June 2011
(ii)	Expected volatility	55% per annum	55% per annum	50% per annum	39% per annum	39% per annum	39% per annum
(iii)	Estimated average life	2.87 years	3.22 years	1.64 years	1.15 years	1.15 years	1.81 years
(iv)	Average risk-free interest rate	4.59% per annum	4.61% per annum	4.50% per annum	4.48% per annum	4.48% per annum	4.48% per annum
(v)	Early exercise assumption	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum					
(vii)	Estimated rate of leaving service	20% per annum for the first year after the grant date and a rate of 15% per annum thereafter			30% per annum for the first year after the grant date and a rate of 25% per annum thereafter		

38. SHARE OPTION SCHEME (continued)

Notes (continued):

Options granted on 3 July 2007

		At grant date
(i)	Exercise period	5 April 2008 to 4 July 2012
(ii)	Expected volatility	41% per annum
(iii)	Estimated average life	1.16 years
(iv)	Average risk-free interest rate	4.60% per annum
(v)	Early exercise assumption	When the share price is at least 150% of the exercise price
(vi)	Expected dividend yield	1% per annum
(vii)	Estimated rate of leaving service	30% per annum for the first year after the grant date and a rate of 25% per annum thereafter

The volatility rate of the share price of the Company was determined with reference to the movements of the Company's and its competitors' share prices.

BMI Appraisals has been appointed to perform the valuation on the four batches of share options granted on 31 May 2005, 16 January 2006, 30 June 2006 and 3 July 2007.

39. SHARE AWARD SCHEME

On 3 July 2007, the Board of the Group approved the share award scheme "Share Award Scheme" under which awarded shares may be awarded to employees of a subsidiary of the Group in accordance with the terms and conditions of the Share Award Scheme. One-third of such awarded shares vest after the expiry of 9 months from the date of award, a further one-third vest after the expiry of 18 months from the date of award, and the remaining one-third vest after the expiry of 27 months from the date of award, providing that the awardees remain in employment with the Group.

Pursuant to the rules of the Share Award Scheme, the Group has set up a trust, for the purposes of administering the Share Award Scheme and holding the Awarded Shares before they vest. A fixed number of the Group's shares were awarded to the eligible employees which would then be acquired from the market at the cost of the Group by the trustee of the trust.

On 24 September 2007, 72,500,000 Awarded Shares were awarded to a number of employees which will be transferred to the employees at nil consideration upon vesting between 3 April 2008 and 3 October 2009. The trustee purchased 36,000,000 Awarded Shares at a total cost (including related transaction costs) of approximately HK$9,570,000 during the period from 27 September 2007 to 31 December 2007.

39. SHARE AWARD SCHEME (continued)

The movements in the number of Awarded Shares and their related average fair value were as follows:

	2007	
	Average fair value per share (HK$)	**Number of Awarded Shares**
Outstanding at 1 January	–	–
Awarded	0.237	72,500,000
Forfeited	–	–
Outstanding at 31 December	0.237	72,500,000

The remaining vesting period of the Awarded Shares outstanding as at 31 December is as follows:

	31 December 2007	
Fair value HK$0.237 per share	Exercise period (both dates inclusive)	Number of Awarded Shares
	3 April 2008 to 3 October 2009	72,500,000

40. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 60 and 61 of the financial statements.

The Group's capital reserve arose mainly from the capital injection.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries established in the PRC should be transferred to the statutory reserves which are restricted as to use.

Notes to Financial Statements

31 December 2007

40. RESERVES (continued)

(b) Company

	Contributed surplus HK$'000	Share premium account HK$'000	Share-based payment HK$'000	Convertible notes HK$'000	Accumulated losses HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000
Balance at 1 January 2006	669,907	1,140,835	7,737	19,430	(1,728,777)	–	109,132
Issue of shares and exercise of share options	–	297,219	(114)	–	–	–	297,105
Share issue expenses	–	(6,988)	–	–	–	–	(6,988)
Equity-settled share option arrangements	–	–	15,997	–	–	–	15,997
Exchange realignment and total loss and expense for the year recognised directly in equity	–	–	–	–	–	(110)	(110)
Loss for the year	–	–	–	–	(402,254)	–	(402,254)
At 31 December 2006	669,907	1,431,066	23,620	19,430	(2,131,031)	(110)	12,882

40. RESERVES (continued)

(b) Company (continued)

	Contributed surplus HK$'000	Share premium account HK$'000	Share held for Share Award Scheme HK$'000	Award share reserve HK$'000	Share based payment HK$'000	Convertible notes HK$'000	Accumulated losses HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000
Balance at 1 January 2007	669,907	1,431,066	–	–	23,620	19,430	(2,131,031)	(110)	12,882
Issue of shares and exercise of share options	–	4,409	–	–	(2,127)	–	–	–	2,282
Conversion of convertible bonds	–	2,713	–	–	–	–	–	–	2,713
Redemption of convertible notes	–	–	–	–	–	(19,430)	–	–	(19,430)
Subscription for new shares for acquisition of a subsidiary	–	146,550	–	–	–	–	–	–	146,550
Equity-settled share option arrangements	–	–	–	–	21,225	–	–	–	21,225
Shares purchased for Share Award Scheme	–	–	(9,570)	–	–	–	–	–	(9,570)
Share Award Scheme arrangements	–	–	–	3,766	–	–	–	–	3,766
Exchange realignment and total loss and expense for the year recognised directly in equity	–	–	–	–	–	–	–	110	110
Loss for the year	–	–	–	–	–	–	(196,684)	–	(196,684)
Total loss and expense for the year	–	–	–	–	–	–	(196,684)	110	(196,574)
At 31 December 2007	669,907	1,584,738	(9,570)	3,766	42,718	–	(2,327,715)	–	(36,156)

The Company's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Company reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

41. 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 (note 16)	50,198	50,198
Intangible assets (note 18)	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	288,980	288,980
Goodwill on acquisition (note 19)	129,035	129,035
Reclassification for goodwill included in interest in an associate at 31 December 2006	8,785	8,785
	426,800	426,800
Satisfied by:		
Cash	306,642	306,642
Reclassification from an interest in an associate to an interest in a subsidiary	120,158	120,158
	426,800	426,800

41. 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	7,688
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(298,954)

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.

42. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year ended 31 December 2007, 500 units of the Convertible Bonds issued by the Company with an aggregate principal amount of approximately US$500,000 (approximately HK$3,906,000) were exercised by certain bondholders in exchange for ordinary shares of the Company at a conversion price of HK$0.3275 per share. Apart from the foregoing, there are no major non-cash transactions of investing and financing activities for the year ended 31 December 2007.

43. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

44. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**9,440**	10,124	**–**	–
In the second to fifth years, inclusive	**15,456**	16,665	**–**	–
Over five years	**–**	4,217	**–**	–
	24,896	31,006	**–**	–

45. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had no capital commitments/contracted, but not provided for (2006: Nil).

46. RELATED PARTY TRANSACTONS

(a) Transactions with related parties

	2007 HK$'000	2006 HK$'000
Transactions with the ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	**4,350**	4,744
Interest expenses	**6,695**	11,460
Interest on convertible notes	**3,453**	5,553
Short-term loan obtained	**5,023,174**	2,562,941
Transactions with fellow subsidiaries		
Purchases of raw materials*	**806,201**	1,447,281
Fund advanced	**–**	2,948
Rental income	**336**	47
Rental charges	**2,161**	2,832
Sales of finished goods	**–**	2,391
Sales of property, plant and equipment	**–**	188
Provision of TD-SCDMA technology	**2,056**	–
Supply of raw materials	**40,189**	–
Purchase of products	**25,029**	–
Transactions with an associate or its subsidiaries		
Technology and software fee	**17,261**	49,389
Fund advanced	**–**	5,708
Recharge expense	**18,100**	22,632
Sales of property, plant and equipment	**3,896**	45,312
Purchase of property, plant and equipment	**–**	112

* The purchases of raw materials with subsidiaries of the ultimate controlling shareholder were made according to prices mutually agreed between two parties.

46. RELATED PARTY TRANSACTONS (continued)

(b) Outstanding balances with related parties

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

	Due from related companies		Due to related companies	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ultimate controlling shareholder	**11,215**	–	**38,368**	25,483
Fellow subsidiaries	**24,415**	184,976	**129,474**	338,049
An associate or its subsidiaries	**–**	44,383	**–**	81,377
	35,630	229,359	**167,842**	444,909

Company

	Due to related companies	
	2007	2006
	HK$'000	HK$'000
Ultimate controlling shareholder	**–**	2,773

The amounts due are mainly trading balances, and are unsecured, interest-free and have no fixed terms of repayment.

46. RELATED PARTYTRANSACTONS (continued)

(b) Outstanding balances with related parties (continued)

Particulars of the maximum outstanding balance of amounts due from related companies are as follows:

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
TCL Communication Equipment (Huizhou) Co., Ltd.*	**–**	2,628
TCL Corporation*	**11,215**	379,798
JRD Communication Inc.	**–**	5,652
TTE Technology Inc.	**21,671**	–
TCL Hyperpower Batteries Inc.	**3,524**	–
Shenzhen TCL Industrial Institute Limited	**263**	–

* The balances are mainly trading balances, and are unsecured, interest-free and have no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	2007	2006
	HK$'000	HK$'000
Short-term employee benefits	**12,933**	13,553
Post-employment benefits	**60**	61
Share-based payment	**5,998**	5,266
Total compensation paid to key management personnel	**18,991**	18,880

Further details of directors' emoluments are included in note 11 to the financial statements.

47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007

Financial assets

	Group		
	Loans and receivables	**Available-for-sale financial assets**	**Total**
	HK$'000	HK$'000	HK$'000
Available-for-sale investment (note 23)	–	20,207	20,207
Trade receivables (note 25)	1,015,407	–	1,015,407
Factored trade receivables (note 26)	199,652	–	199,652
Notes receivables	67,061	–	67,061
Financial assets included in prepayments, deposits and other receivables	130,194	–	130,194
Due from related companies	35,630	–	35,630
Pledged deposits (note 27)	958,738	–	958,738
Cash and cash equivalents (note 27)	708,716	–	708,716
	3,115,398	20,207	3,135,605

Financial liabilities

	Financial liabilities at fair value through profit or loss	**Financial liabilities at amortised cost**	**Total**
	HK$'000	HK$'000	HK$'000
Trade and notes payables (note 29)	–	1,052,376	1,052,376
Other payables and accruals	–	214,810	214,810
Convertible bonds	162,860	205,978	368,838
Interest-bearing bank and other borrowings (note 28)	–	838,791	838,791
Bank advances on discounted notes receivable and factored trade receivables	–	199,652	199,652
Due to related companies	–	167,842	167,842
Forward contracts (note 30)	9,495	–	9,495
	172,355	2,679,449	2,851,804

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows (continued):

2006

Financial assets

	Group		
	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investment (note 23)	–	20,207	20,207
Trade receivables (note 25)	1,113,198	–	1,113,198
Financial assets included in prepayments, deposits and other receivables	179,042	–	179,042
Factored trade receivables	256,483	–	256,483
Notes receivables	60,252	–	60,252
Due from related companies	229,359	–	229,359
Pledged deposits (note 27)	36,603	–	36,603
Cash and cash equivalents (note 27)	531,001	–	531,001
	2,405,938	20,207	2,426,145

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and notes payables (note 29)	1,212,670
Other payables and accruals	371,590
Bank advances on discounted notes receivable and factored trade receivables	322,544
Due to related companies	444,909
Liability component of convertible notes	165,670
	2,517,383

47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows (continued):

Financial assets

	Company			
	2007		2006	
	Loans and receivables HK$'000	**Total HK$'000**	Loans and receivables HK$'000	Total HK$'000
Due from subsidiaries (note 20)	**1,052,423**	**1,052,423**	671,987	671,987
Cash and cash equivalents (note 27)	**1,243**	**1,243**	1,633	1,633
	1,053,666	**1,053,666**	673,620	673,620

Financial liabilities

	2007 Financial liabilities at fair value through profit or loss HK$'000	**2007 Financial liabilities at amortised cost HK$'000**	**Total HK$'000**	2006 Financial liabilities at amortised cost HK$'000
Due to subsidiaries	**–**	**–**	**–**	2
Due to related companies	**–**	**–**	**–**	2,773
Due to an associate	**–**	**–**	**–**	6
Trade payables (note 29)	**–**	**417**	**417**	2,097
Other payables and accruals	**–**	**2,854**	**2,854**	4,943
Convertible bonds/notes	**162,860**	**205,978**	**368,838**	–
	162,860	**209,249**	**372,109**	9,821

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into forward currency contracts so as to manage the currency risks arising from the Group's operations and its sources of finance. The Group does not hold or issue derivative financial instruments except for forward currency contracts for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's convertible bonds, convertible notes and bank loans with a combination of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's convertible bonds, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/(decrease) in basis points	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in equity**
		HK$'000	HK$'000
2007			
Hong Kong dollar	+100bp	7,955	–
Hong Kong dollar	-100bp	(7,708)	–
2006			
Hong Kong dollar	+100bp	–	–
Hong Kong dollar	-100bp	–	–

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, US$ and RMB.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/(decrease) in exchange rate	**Increase/(decrease) in profit before tax** HK$'000	**Increase/(decrease) in equity** HK$'000
2007			
If Hong Kong dollar weakens against Euro	-5%	(1,876)	(1,876)
If Hong Kong dollar strengthens against Euro	5%	1,876	1,876
2006			
If Hong Kong dollar weakens against Euro	-5%	4,096	4,096
If Hong Kong dollar strengthens against Euro	5%	(4,096)	(4,096)

Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises non-recourse factoring facilities and credit insurance to minimise the credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

Concentration of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk with the Group.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest bearing loans. Except for the convertible bonds, all borrowings mature in less than one year.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 23) as at 31 December 2007. The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity investments underlie the fair values of derivatives. As at the balance sheet date, the Group was exposed to this risk through the conversion rights attached to the convertible bonds (note 33) issued by the Company.

The following table demonstrates the sensitivity to every 10% change in the volatility and equity price of the conversion option of the convertible bonds, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
	%	HK$'000	HK$'000
2007			
Volatility	+10%	8,167	–
Volatility	-10%	(5,141)	–
2006			
Volatility	+10%	–	–
Volatility	-10%	–	–

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk (continued)

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax	Increase/(decrease) in equity
	%	HK$'000	HK$'000
2007			
Equity price	+10%	30,799	–
Equity price	-10%	(32,962)	–
2006			
Equity price	+10%	–	–
Equity price	-10%	–	–

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank and other borrowings, an amount due to the ultimate holding company, trade, bills and other payables, accruals, less cash and cash equivalents. Capital includes convertible bonds, convertible notes and equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group	**2007** **HK$'000**	2006 HK$'000
Interest-bearing bank and other borrowings	**838,791**	–
Bank advances on discounted notes receivable and factored trade receivables	**199,652**	322,544
Trade and notes payables	**1,052,376**	1,212,670
Other payables and accruals	**551,654**	770,683
Due to related companies	**167,842**	444,909
Less: Cash and cash equivalents	**(708,716)**	(531,001)
Net debt	**2,101,599**	2,219,805
Convertible notes, the liability component	**–**	165,670
Convertible bonds, the liability and derivative components	**368,838**	–
Equity attributable to equity holders	**1,052,423**	671,987
Adjusted capital	**1,421,261**	837,657
Capital and net debt	**3,522,860**	3,057,462
Gearing ratio	**60%**	73%

49 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 February 2008.

Five Year Financial Summary

31 December 2007

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,971,081**	5,501,627	5,663,696	7,309,738	9,019,503
Cost of sales	**(4,123,975)**	(4,709,736)	(5,575,958)	(6,281,442)	(7,128,862)
Gross profit	**847,106**	791,891	87,738	1,028,296	1,890,641
Other revenue and gains	**70,722**	142,981	187,551	203,684	21,201
Research and development expenses	**(173,343)**	(177,168)	(346,795)	(215,057)	(114,898)
Selling and distribution costs	**(336,954)**	(371,228)	(877,340)	(789,234)	(843,115)
Administrative expenses	**(330,643)**	(300,420)	(894,264)	(443,409)	(146,366)
Other operating expenses	**(1,510)**	(15,308)	(7,469)	(68,233)	(3,124)
Finance costs excluding interest on convertible bonds	**(16,185)**	(29,118)	(20,867)	(20,252)	(9,948)
Share of losses of an associate	**(16,943)**	(9,498)	–	–	–
	42,250	32,132	(1,871,446)	(304,205)	794,391
Changes in fair value of the derivative component of convertible bonds	**(10,041)**	–	–	–	–
Interest on convertible bonds	**(22,747)**	–	–	–	–
Profit/(loss) before tax	**9,462**	32,132	(1,871,446)	(304,205)	794,391
Tax	**23,601**	(16,709)	(24,630)	2,998	(10,227)
Profit/(loss) for the year	**33,063**	15,423	(1,896,076)	(301,207)	784,164
ATTRIBUTABLE TO:					
Equity holders of the parent	**33,063**	15,423	(1,608,204)	(184,897)	784,164
Minority interests	**–**	–	(287,872)	(116,310)	–
	33,063	15,423	(1,896,076)	(301,207)	784,164
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**4,316,821**	3,670,357	4,083,768	5,482,410	4,191,301
Total liabilities	**(3,264,398)**	(2,998,370)	(4,042,823)	(3,617,486)	(2,176,492)
Minority interests	**–**	–	–	(341,956)	–
	1,052,423	671,987	40,945	1,522,968	2,014,809

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