



**A mobile phone company
that we should talk about it !**



Interim Report 2008

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

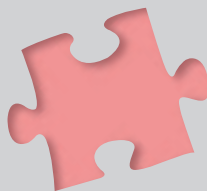
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创意感动生活
The Creative Life

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Interim Report 2008





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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. LI Dongsheng (*Chairman*)
Mr. LIU Fei (*Chief executive officer*)
Mr. WONG Toe Yeung
Mr. YU Enjun

NON-EXECUTIVE DIRECTORS

Mr. BO Lianming
Mr. HUANG Xubin

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Siu Ki
Mr. SHI Cuiming
Mr. LIU Chung Laung

AUDIT COMMITTEE

Mr. LAU Siu Ki (*Chairman*)
Mr. SHI Cuiming
Mr. BO Lianming

REMUNERATION COMMITTEE

Mr. SHI Cuiming (*Chairman*)
Mr. LAU Siu Ki
Mr. BO Lianming

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

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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China Hong Kong City
33 Canton Road
Tsimshatsui, Kowloon
Hong Kong

INVESTOR AND MEDIA RELATIONS

PRChina Limited
Room 301, Wilson House
19-27 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



Interim Results

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2008

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

Interim Results

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

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

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

30 June 2008

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
<hr/>			
TOTAL ASSETS LESS CURRENT LIABILITIES		1,468,303	1,423,929
<hr/>			
NON-CURRENT LIABILITIES			
Retirement indemnities		1,811	1,691
Long service medals		1,026	977
Convertible bonds	11	274,544	368,838
<hr/>			
Total non-current liabilities		277,381	371,506
<hr/>			
Net assets		1,190,922	1,052,423
<hr/>			
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	715,050	718,689
Shares held for Share Award Scheme		(54,561)	(9,570)
Reserves		530,433	343,304
<hr/>			
Total equity		1,190,922	1,052,423
<hr/>			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the parent								Total equity
	Issued share capital	Share premium account	Share option reserve	Share of convertible notes	Equity component of Contributed surplus	Statutory reserves	Exchange fluctuation reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	1,192	2,069	(718)	-	-	-	-	-	2,543
Conversion of convertible bonds	1,193	2,713	-	-	-	-	-	-	3,906
Equity-settled share option arrangement	-	-	5,812	-	-	-	-	-	5,812
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	-	-	19,220	-	19,220
Profit for the period	-	-	-	-	-	-	-	2,094	2,094
Total income and expense for the period	-	-	-	-	-	-	19,220	2,094	21,314
At 30 June 2007	596,356	1,435,848*	28,714*	19,430	232,555*	119,951*	32,977*	(1,760,269)*	705,562

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2008

	Attributable to equity holders of the parent									
	Issued share capital	Share premium account	Share Award Scheme	Awarded Shares reserve	Share option reserve	Contributed surplus	Statutory reserves	Exchange fluctuation reserve	Accumulated losses	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	718,689	1,584,738	(9,570)	3,766	48,909	232,555	119,951	82,685	(1,729,300)	1,052,423
Issue of shares and exercise of share options	2,635	5,953	-	-	(2,782)	-	-	-	-	5,806
Equity-settled share option arrangements	-	-	-	-	8,860	-	-	-	-	8,860
Share repurchased	(6,274)	(13,574)	-	-	-	-	-	-	-	(19,848)
Shares purchased for Share Award Scheme	-	-	(44,991)	7,319	-	-	-	-	-	(37,672)
Exchange realignment and total income and expense for the period recognised directly in equity	-	-	-	-	-	-	-	69,682	-	69,682
Profit for the period	-	-	-	-	-	-	-	-	111,671	111,671
Total income and expense for the period	-	-	-	-	-	-	-	69,682	111,671	181,353
At 30 June 2008	715,050	1,577,117*	(54,561)	11,085*	54,987*	232,555*	119,951*	152,367*	(1,617,629)*	1,190,922

* These reserve accounts comprise the consolidated reserves of approximately HK\$530,433,000 (30 June 2007: HK\$89,776,000) in the consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	13,757	(50,173)
Net cash outflow from investing activities	(71,708)	(5,650)
Net cash (outflow)/inflow from financing activities	(196,959)	385,661
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(254,910)	329,838
Cash and cash equivalents at beginning of period	708,716	531,001
Effect of foreign exchange rate changes, net	50,918	6,453
CASH AND CASH EQUIVALENTS AT END OF PERIOD	504,724	867,292
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and bank balances	504,724	867,292

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. ACCOUNTING POLICIES

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

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

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

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

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

2. SEGMENT INFORMATION

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

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

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

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

3. REVENUE, OTHER INCOME AND GAINS

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

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

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

* During the six months ended 30 June 2008, JRD Communication (Shenzhen) Limited, being a designated software enterprise, was entitled to VAT refunds on the effective VAT rates in excess of 3% after the payment of statutory net output VAT of 17%.



4. FINANCE COSTS

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

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

5. PROFIT BEFORE TAX

Profit before tax was determined after charging:

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

6. TAX

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

6. TAX (continued)

No Hong Kong profits tax has been provided (2007: 17.5%) since no assessable profits was arisen in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction of which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, was given a high and new technology enterprise accreditation which expired on 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and had been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence was subject to a national income tax rate of 10% from 2005 to 2007. TCL Mobile will be subject to a national income tax rate of 25% from year 2008 onwards.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. Mobile Hohhot also enjoys preferential tax treatment as being foreign investment enterprise located in the western region of China, including 50% reduction in national corporate income tax until 2010. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate from 2004 to 2006 was 7.5%. Mobile Hohhot is subject to the PRC corporate income tax rate of 15% in 2007 and 2008.

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

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

During 2007 and 2008, T&A Mobile Phones SA de CV Limited was subject to tax on assets at a tax rate of 1.25% over 2006 and 2007 average specific assets balance respectively. This tax will be applied on certain current assets and on fixed assets of Mexican companies and foreigner's assets within Mexico to be transformed and returned out of Mexico and will be paid on an annual basis through monthly provisional payments.

6. TAX (continued)

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

7. DIVIDEND

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

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

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

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Profit		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	111,671	2,094
Number of shares		
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	7,085,835,624	5,944,113,843
Effect of diluted weighted average number of ordinary shares:		
Assumed issuance upon the exercise of share options	31,238,054	99,070,092
	7,117,073,678	6,043,183,935

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

The calculation of the diluted earnings per share for the six months ended 30 June 2008 has also taken into account the convertible bonds and share options outstanding during the period. Since the exercise price of certain share options during the period was lower than the fair market value of the ordinary shares, the share options outstanding during the period had a dilutive effect on the Company. Since the conversion price of the convertible bonds was higher than the fair market value of the ordinary shares, the convertible bonds had an anti-dilutive effect on the Company.

The calculation of basic and diluted earnings per share has included the impact on changes in fair value of the derivative component of convertible bonds. It is not an indicator of the Group's operating performance for the six months ended 30 June 2008.

9. TRADE RECEIVABLES

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

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

10. TRADE AND NOTES PAYABLES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Within 6 months	827,984	1,050,623
7 to 12 months	17,549	1,251
More than 1 year	13,063	502
	858,596	1,052,376

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

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

11. CONVERTIBLE BONDS

On 2 April 2007 and 1 June 2007, the Company issued a zero coupon convertible bonds with an aggregate principal amount of US\$27 million and US\$18 million respectively (the "Convertible Bonds"). The five-year Convertible Bonds were issued with a conversion price of HK\$0.3275 per share and will mature on 2 April 2012. The yield to maturity is 5.709%. The conversion price of the Convertible Bonds has been adjusted from HK\$0.3275 per share to HK\$0.32 per share with effect from 2 April 2008 in accordance with the terms and conditions of Convertible Bonds.

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

11. CONVERTIBLE BONDS (continued)

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

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

Fair value of conversion option

The embedded conversion option has been separated from the host debt contract and accounted for as a derivative liability carried at fair value through profit or loss. The fair value of this conversion option which is not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation model requires the input of subjective assumptions, such as the volatility of share price, stock closing price, dividend yield, risk-free rate, and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate. For the six months ended 30 June 2008, the fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes model with the major inputs used in the model as follows:

i) *Call option held by the Company – Convertible Bonds – US\$27 million*

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

11. CONVERTIBLE BONDS (continued)

Fair value of conversion option (continued)

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

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

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

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

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

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

11. CONVERTIBLE BONDS (continued)

Fair value of conversion option (continued)

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

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

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

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

Any changes in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 1 January 2008 to 30 June 2008 resulted in a fair value gain of approximately HK\$115,708,000, which has been recorded as the "Changes in fair value of derivative component of Convertible Bonds" in the income statement for the six months ended 30 June 2008.

11. CONVERTIBLE BONDS (continued)

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

	<i>US\$'000</i>	Equivalent to <i>HK\$'000</i>
Liability component	29,152	227,412
Derivative component	6,042	47,132
Carrying value of convertible bonds	35,194	274,544
Number of conversion shares at the issuance date (shares)		1,073,459,542
Conversion price at the issuance date		HK\$0.3275
Conversion price at the balance sheet date		HK\$0.32

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

12. SHARE CAPITAL

	No. of shares	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>
Authorised :			
Ordinary shares of HK\$0.1 each at 1 January 2008 and 30 June 2008	20,000,000,000	2,000,000	
Issued and fully paid or credited as fully paid:			
Ordinary shares of HK\$0.1 each at 1 January 2007	5,939,712,052	593,971	1,431,066
Share options exercised	19,825,330	1,982	4,409
Convertible bonds converted	11,927,328	1,193	2,713
Subscription for new shares due to acquisition of a subsidiary	1,215,430,000	121,543	146,550
At 31 December 2007 and at 1 January 2008	7,186,894,710	718,689	1,584,738
Share options exercised (a)	26,351,999	2,635	5,953
Shares repurchased (b)	(62,748,000)	(6,274)	(13,574)
At 30 June 2008	7,150,498,709	715,050	1,577,117

12. SHARE CAPITAL (continued)

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

- (a) 26,351,999 share options were exercised during 2008 at the subscription price ranging from HK\$0.2108 to HK\$0.232 per share, resulting in the issue of 26,351,999 shares of HK\$0.1 each for a total cash consideration, before expenses, of HK\$2,635,000.
- (b) During the six months ended 30 June 2008, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited. The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium of the repurchase was charged against share premium.

Details of the repurchase of shares are summarised as follows:

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

13. 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.

At the balance sheet date, the Company had 752,827,013 share options outstanding under the share option scheme. Further details of the share option scheme are set out in Other Information.

14. 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.

On 11 March 2008, the board of Directors further resolved to award 120 million Shares to about 100 Selected Employees to recognise their contribution to the Group and as an incentive for retaining them. The Scheme is pursuant to which existing Shares will be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the relevant Selected Employees until such Shares are vested with the relevant Selected Employees in accordance with the provisions of the Scheme.

During the period from 1 January 2008 to 30 June 2008, the trustee purchased 142,398,000 Shares at a total cost (including related transaction costs) of approximately HK\$44,991,000 which had not yet awarded.

14. SHARE AWARD SCHEME (continued)

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

2008		
	Average fair value per share (HK\$)	Number of Awarded Shares
Outstanding at 1 January	0.265	72,500,000
Vested	0.315	(24,166,667)
Outstanding at 30 June	0.315	48,333,333

The remaining vesting period of the Awarded Shares outstanding as at 30 June is as follows:

30 June 2008		
	Exercise period (both dates inclusive)	Number of Awarded Shares
Fair value HK\$0.315 per share	30 June 2008 to 3 October 2009	48,333,333

15. CONTINGENT LIABILITIES

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

16. CAPITAL COMMITMENTS

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

17. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<hr/>		
Transactions with the ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	4,520	2,477
Interest expenses	2,781	5,296
Interest on convertible notes	-	2,754
Short-term loan obtained	7,991,399	1,271,976
Transactions with fellow subsidiaries		
Purchases of raw materials*	256,111	114,806
Rental income	199	166
Rental charges	1,168	1,066
Provision of TD-SCDMA technology	888	-
Supply of raw materials	117,581	-
Purchase of products	66,463	-
Transactions with an associate or its subsidiaries		
Technology and software fee	-	16,583
Sales of property, plant and equipment	-	1,085
Transactions with a jointly controlled entity		
Sales of products	3,635	-
<hr/>		

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

17. RELATED PARTY TRANSACTIONS (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:

	Due from related companies		Due to related companies	
	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Ultimate controlling shareholder	12,172	11,215	48,158	38,368
Fellow subsidiaries	114,318	24,415	111,481	129,474
A jointly controlled entity	–	–	3,005	–
	126,490	35,630	162,644	167,842

The amounts due 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

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short term employee benefits	11,379	7,523
Post-employment benefits	39	36
Share-based payment	2,791	2,220
Total compensation paid to key management personnel	14,209	9,779

18. APPROVAL OF THE INTERIM FINANCIAL REPORT

The condensed consolidated interim financial statements were approved and authorised for issue by the board of Directors on 20 August 2008.

INDUSTRY OVERVIEW

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

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

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

BUSINESS REVIEW

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

In the review period, the Group further strengthened its position in EMEA¹ and LATAM¹ markets. In terms of geographically expansion, the Group will continue to penetrate new emerging markets in Africa and the Indian Ocean. From a product point of view, it will extend product offer to include CDMA solutions to the new markets.

*Note 1: 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")*

Review of Operations

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

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

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

Sales volume breakdown by geographical locations

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

EMEA

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

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

LATAM

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

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

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

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

The PRC¹

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

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

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

Other Markets

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

In the period under review, sales in APAC¹ increased by 159% to 350,000 handsets compared to the same period last year. However, the Group focused on promoting entry level products which had a negative impact on its ASP and gross margin, especially in the Philippines and Fiji. Nonetheless, the improved sales volume increased the Group's market share and further strengthened its position in these APAC markets. To improve its ASP and gross margin, The Group plans to increase the shipment of mid to high-end products in the coming six months.

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

To utilize fully its R&D and manufacturing capacities, the Group is seeking to establish collaborative relationships with key operators for the provision of ODM¹ services. The Group plans to develop this new operation into an independent profit centre to generate an additional revenue stream. In addition, the Group will continue to explore potential markets such as Morocco, Angola, Venezuela, Pakistan, Turkey, Taiwan as well as Thailand.

PRODUCT DEVELOPMENT

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

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

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

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

FUTURE OUTLOOK

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

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

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

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

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

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

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

FINANCIAL REVIEW

Results

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

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

EBITDA before effect of convertible bonds and profit attributable to equity holders of the parent improved to approximately HK\$61 million and HK\$112 million respectively (2007: EBITDA before effect of convertible bonds and profit attributable to shareholders was HK\$67 million and HK\$2 million respectively). Profit before the effect of convertible bonds² is HK\$16 million which is 23% increase as compared with 2007. Basic earnings per share was HK1.58 cents (2007: basic earnings per share was HK 0.04 cents).

Inventory

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

Trade Receivables

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

Significant Investment and Acquisition

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

Fund Raising

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

Note 2: The effects of convertible bonds included the changes in fair value of the derivative component of convertible bonds and interest.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the period. The cash and cash equivalents balances as at 30 June 2008 amounted to HK\$505 million, of which 58% were in Renminbi, 23% in US dollars, 9% in Euro and 10% in Hong Kong dollars & others for the operations. The Group's financial position remains healthy, with total assets of HK\$5,487 million and a gearing ratio of 48.6% at the end of the period under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings (including those interest-bearing borrowings for RMB foreign exchange program) over total assets. Excluding the interest-bearing borrowings for RMB foreign exchange program, the gearing ratio is 16.1%.

Pledge of Deposits

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

Capital Commitment and Contingent Liabilities

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

The Group had no contingent liabilities as at 30 June 2008.

Foreign Exchange Exposure

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

Employees and Remuneration Policy

The Group had approximately 4,704 employees as at 30 June 2008. Total staff costs for the period under review were approximately HK\$199 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

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

As at 30 June 2008, the interests and short positions of the Directors and chief executive in the shares, 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	1.54%
Mr. LIU Fei	Beneficial owner	80,000	0.001%
Mr. WONG Toe Yeung	Interest of spouse/ Interest held jointly with another person/ Beneficial owner (<i>Note</i>)	563,763,000	7.88%
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 14,810,000 shares of the Company, Mr. Wong Toe Yeung and his spouse, Ms. Leung Lai Bing, are jointly the beneficial owners.

Other Information

(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 period:

Name or category of participant	Number of share options					Re-classified	At 30 June 2008	Date of grant	Exercise period (both dates inclusive) <i>(Notes 1, 2, 3 and 4)</i>	Closing price immediately before the Date of Grant	
	At 1 January 2008	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Exercise price <i>(HK\$)</i>					before the Date of Grant <i>(HK\$)</i>	
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	
	26,512,049	-	-	-	-	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	
	47,260,454	-	-	-	-	47,260,454					

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

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

Name or category of participant	Number of share options					Re-classified	At 30 June 2008	Date of grant	Exercise period (both dates inclusive) <i>(Notes 1, 2, 3 and 4)</i>	Closing price immediately before the Date of Grant	
	At 1 January 2008	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Exercise price <i>(HK\$)</i>					before the Date of Grant <i>(HK\$)</i>	
Mr. YU Enjun	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	
	26,344,909	-	-	-	-	26,344,909					
Mr. BO Lianming	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	
	6,447,483	-	-	-	-	6,447,483					

Other Information

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

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

Name or category of participant	Number of share options					At 30 June 2008	Date of grant	Exercise period (both dates inclusive) <i>(Notes 1, 2, 3 and 4)</i>	Closing price immediately before the Date of Grant	
	At 1 January 2008	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Re-classified				Exercise price <i>(HK\$)</i>	Date of Grant <i>(HK\$)</i>
Mr. HUANG Xubin	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
	4,189,546	-	-	-	-	4,189,546				
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				
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				

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

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

Name or category of participant	Number of share options						Date of grant	Exercise period (both dates inclusive) <i>(Notes 1, 2, 3 and 4)</i>	Closing price immediately before the	
	At 1 January 2008	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	Re-classified	At 30 June 2008			Exercise price <i>(HK\$)</i>	Date of Grant <i>(HK\$)</i>
Mr. WONG Toe Yeung	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
	26,512,049	-	-	-	-	26,512,049				
Sub-Total	139,521,036	-	-	-	-	139,521,036				
Employees	25,570,923	-	-	(1,145,450)	-	24,425,473	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	84,038,000	-	(13,778,000)	(425,000)	-	69,835,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	147,596,666	-	(11,789,999)	(5,006,000)	-	130,800,667	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	274,447,072	-	-	(16,476,817)	-	257,970,255	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
Sub-Total	531,652,661	-	(25,567,999)	(23,053,267)	-	483,031,395				

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

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

Name or category of participant	Number of share options					Re-classified	At 30 June 2008	Date of grant	Exercise period (both dates inclusive)	Closing price immediately before the Date of Grant	
	At 1 January 2008	Granted during the period	Exercised during the period	Cancelled/Lapsed during the period	Exercise price (HK\$)					Date of Grant (HK\$)	
Those who have contributed or may contribute to the Group	40,643,854	-	-	(3,261,822)	-	37,382,032	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41	
	20,188,000	-	(784,000)	(1,280,000)	-	18,124,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22	
	11,250,000	-	-	-	-	11,250,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228	
	64,126,800	-	-	(608,250)	-	63,518,550	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31	
Sub-Total	136,208,654	-	(784,000)	(5,150,072)	-	130,274,582					
Total	807,382,351	-	(26,351,999)	(28,203,339)	-	752,827,013					

Notes:

- 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.
- 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.

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

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

Notes: (continued)

- 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.
- 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.

(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:

- TCL Corporation ("TCL Corp"), a company incorporated in the People's Republic of China, is the ultimate controlling shareholder of the Company.
- 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	2,720,033	0.05%
Mr. WONG Toe Yeung	TCL Multimedia	Beneficial owner	3,600,000	0.06%
Mr. HUANG Xubin	TCL Multimedia	Beneficial owner	1,442,490	0.02%

Save as disclosed above, as at 30 June 2008, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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	3,320,976,960	46.44%	1
Leung Lai Bing	Beneficial owner/ Interest of spouse/ Interest held jointly with another person	590,275,049	8.26%	2
The MAG Foundation	Other	548,953,000	7.68%	3
Norrell Overseas Invest Ltd.	Beneficial owner	548,953,000	7.68%	3

Notes:

- Under the SFO, TCL Corp was deemed to be interested in 3,320,976,960 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.
- Ms. Leung Lai Bing is deemed to be interested in (a) 563,763,000 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 14,810,000 shares which are jointly held by Ms. Leung Lai Bing and her spouse, Mr. Wong Toe Yeung; and (b) 26,512,049 share options of the Company held by her spouse, Mr. Wong Toe Yeung.
- Norrell Overseas Invest Ltd. is the beneficial owner of 548,953,000 shares of the Company which are held for the benefit of The MAG Foundation and Ms. Leung Lai Bing is beneficially interested in the said interest owned by the foundation.

Save as disclosed above, as at 30 June 2008, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company has not, for any part of the six months ended 30 June 2008, complied fully with the codes set out in the Code of Corporate Governance Practices (“CG Code”) as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The interim results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises three members including Messrs. Lau Siu Ki (Chairman) and Shi Cuiming, independent non-executive Directors of the Company, and Mr. Bo Lianming, a non-executive Director of the Company.

On behalf of the Board

Li Dongsheng
Chairman

Hong Kong
20 August 2008