Annual Report 2008

TCL COMMUNICATION TECHNOLOGY HOLDINGS LIMITED

Stock code: 02618

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: tclcom.tcl.com.

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FINANCIAL HIGHLIGHTS

FINANCIAL SUMMARY

(HK$'000)	2008	2007
Revenue	**4,538,281**	4,971,081
Gross profit	**811,618**	847,106
Gross profit margin (%)	**18%**	17%
Profit before the effects of convertible bonds	**372**	65,851
Effects of convertible bonds:		
– Changes in fair value of the derivative component of the convertible bonds	**68,078**	(10,041)
– Interest on convertible bonds	**(39,959)**	(22,747)
Profit attributable to equity holders of the parent	**28,491**	33,063
Basic EPS (HK cents)	**0.4**	0.5

FINANCIAL POSITION

(HK$'000)	2008	2007 (Restated)
Property, plant and equipment and prepaid land lease payments	**278,012**	261,035
Net current assets	**687,634**	916,255
Cash and pledged deposits	**2,333,936**	1,667,454
Total liabilities	**3,478,688**	3,264,398
Interest bearing borrowings	**1,911,590**	1,038,443
Convertible bonds	**142,058**	368,838
Net assets	**1,064,803**	1,052,423

KEY FINANCIAL INDICATORS

	2008	2007 (Restated)
Inventory turnover (days) *	**19**	29
Trade receivable turnover (days) **	**90**	96
Current ratio (times)	**1.2**	1.3
Interest bearing borrowings/total assets ***	**16%**	18%

* Finished goods only

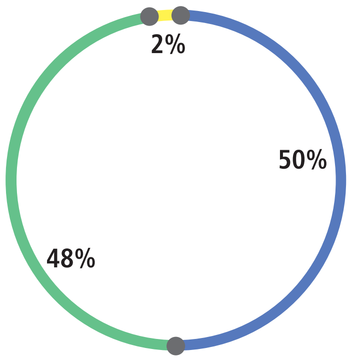
** Included trade receivables and factored trade receivable

*** Excluding the interest-bearing borrowing for RMB foreign exchange program

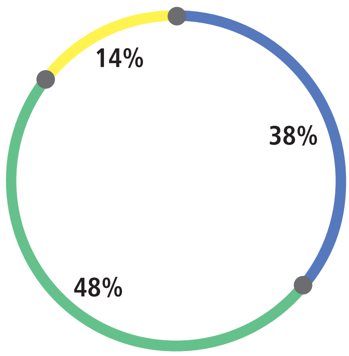
Note: The above turnover days are calculated on average balance of the year.

REVENUE BY PRODUCT

2008



2007



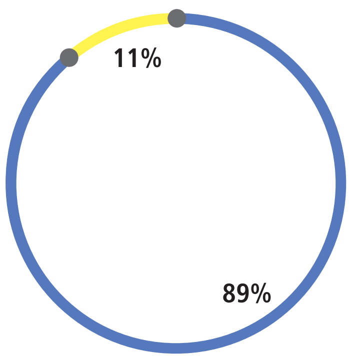
Multimedia

Monochrome

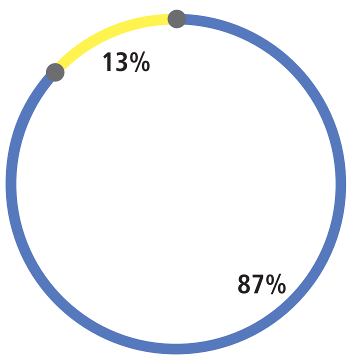
Colour

REVENUE BY MARKET

2008



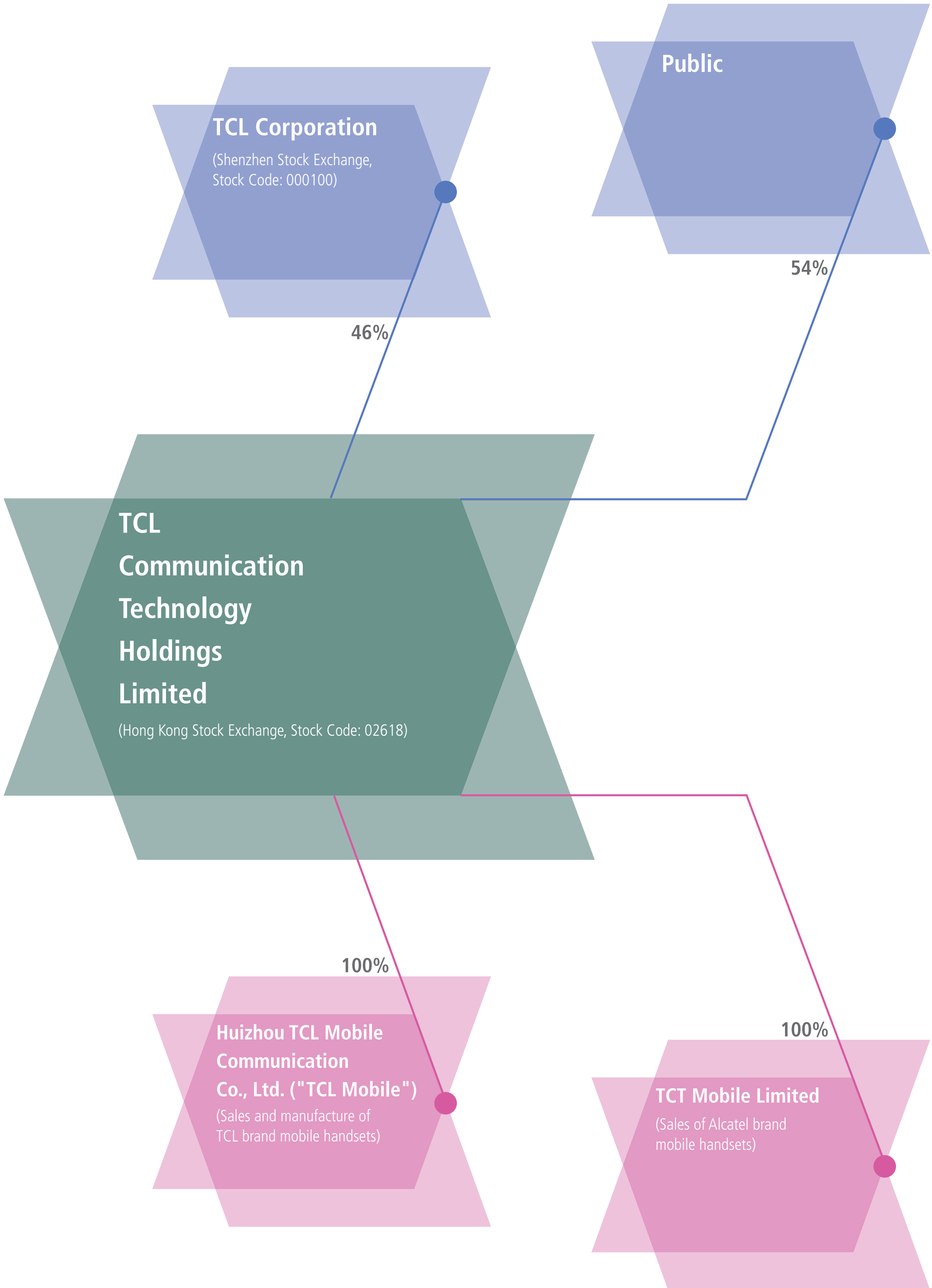
2007



Overseas

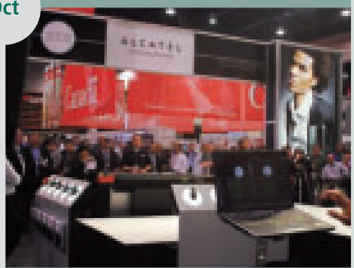
PRC

CORPORATE STRUCTURE

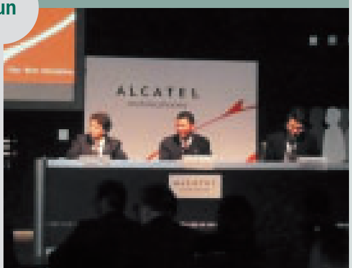


Oct

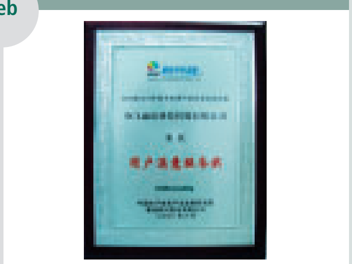
Oct



Jun



Feb



Oct

TCL MBO308 won the Excellent Industry Design Awards in the First China Mobile Phone Design Contest.

Participated in the P&T/EXPO COMM CHINA 2008 and China-ASEAN Expo 2008 and launched TD-SCDMA handsets.

SEP

Practical new patent of One Music Mobile Phone passed the examination and authorization by the State's intellectual property office of the PRC, and obtained bronze award by TCL Corporation.

Jun

Obtained the "Customer Satisfaction Service Award 2008" in the 9th CCID mobile phone user's satisfaction investigation.

Apr

Took part in the CTIA Wireless Exhibition held in Las Vegas, U.S.A with Cellatel, and launched new products to further expand the presence in North America.

Mar

Re-launched the feminine handset brand MBO and unveiled "Fashion for Female" mobile phones in TCL brand's the new strategy conference; invited Ms. Li Bingbing, the winner of Huabiao Movie Award to be the ambassador of the product.

Patent of *Dynamic Expansion Method of Mobile Communication Terminal Functions* passed the examination and authorization by the State's intellectual property office of the PRC, and obtained silver invention award by TCL Corporation.

Feb

Took part in the 3GSM World Congress 2008 held in Barcelona of Spain, displaying a range of new stylish ALCATEL mobile phones.

Alcatel mobile phone OT-E206A was authorized the certificate of AT&T GSM wireless network.

Entered into an agreement with a key worldwide operator T-Mobile. ODM business was becoming the company's new growth point.

SHARE IS ......

CHAIRMAN'S STATEMENT

Mr. LI Dongsheng

Dear Shareholders,

The global economy experienced a sharp decline in the second half of 2008 amid a severe credit crunch. Competition in the handset market intensified. Developing countries and emerging markets were the key growth areas for handsets sales and demand for low-priced units in these markets remained robust.

The Group achieved a net profit of HK$28,491,000 for the year of 2008 and remained profitable for the third consecutive year. Profit before the effect of convertible bonds was HK$372,000. During the period, a total of 13.7 million handsets and accessories were sold, representing an increase of 15% over 2007. Overall profit margin improved from 17% in 2007 to 18% in 2008.

VIBRANT EXPANSION IN EMEA AND LATAM

In the first half of last year, the Group excelled in its sales performance in overseas markets. Nevertheless, the financial tsunami took its toll on growth in the second half and impacted on both the Group's overall sales volume and profitability for the full year. With wide recognition and stable long-term partnerships with major distributors around the world, the Alcatel brand contributed 99% of the Group's sales overseas last year.

Sales performance in Latin America (LATAM) last year beat our expectations, with sales volume rising by 14% and revenue increasing by 11%. Our market share in LATAM expanded for the fourth consecutive year, resulting from a continuous improvement and enhancement of our corporate image, core competitiveness and management capabilities. Business performance in the Caribbean and Venezuela was in particular outstanding. However, as the financial turmoil spread over the globe, the currencies of some countries in Central America (whose economies heavily rely on exports) substantially devalued and our sales in the fourth quarter were inevitably affected. In response, the Group actively carried out measures to improve its product mix and launched a series of middle-end and high-end handsets. The average selling price and profit margins of our products were thus improved.

On the other hand, operational performance in Europe, the Middle East and Africa (EMEA) fell short of our expectations. Sales volume in EMEA grew a mere 5% for the year. The Group took the initiative to explore this market in the first half of last year by offering competitive pricing for entry-level handsets and by launching the U-7 series in the market. Sales volume in EMEA was thus considerably raised. However, sales in the area slowed down markedly in the second half due to the deteriorating business environment. On top of that, the low-price strategy eroded the average selling price of the product mix and their profit margins.

NEW MEASURES TO IMPROVE OPERATING CONDITIONS IN CHINA

Competition in the PRC market remained fierce. Profit margins of our products continued to decline because of the overwhelming number of brands in the market, short product life-cycles and accelerating operating costs. The financial crisis was also responsible for reducing margins. Although the Group posted 60% growth in sales volume in China last year, revenue went down during the period. The TCL brand was still the major generator of the Group's sales in China, accounting for 86% of turnover in this market.

To address market conditions in China, the Group carried out a series of measures last year to avoid engaging in price competition, including the re-branding of its products, and the enhancement of product innovation and design. It also actively bid under the government's Rural Subsidy Scheme to propel sales growth in rural areas. Meanwhile, it carried on internal cost control measures while maintaining the quality of its products.

During the review period, TCL brand rolled out the MBO Series of lady handsets, of which the China Chic Series and Crystal Series were particularly welcomed by the market. To accommodate the mainstream market's needs, TCL brand launched dual SIM phones and big screen handsets. Its music mobile handsets have also been gaining popularity among students. In the second half of 2008, TCL brand successfully launched the first series of its 3G handsets, TD-SCDMA, and received orders from China Mobile for those products. This helped TCL brand gain valuable insights into the new business model of the 3G market. Over the past year, the ranking of customers' perceived value of the TCL brand climbed to No.3 in 2008 from No.7 in 2007.

SWIFT DELIVERY, QUICK TURNOVER AND SUSTAINABLE COMPETITIVE EDGES

In order to strengthen cost control and the efficiency of the supply-chain, the Group strove hard to achieve the goals of "swift delivery, quick turnover and sustainable competitive edges". During the review period, its average finished goods inventory turnover days decreased to 19 days in 2008 from 29 days in 2007. The improvement helped us withstand the financial crisis. At the same time, our performance in the delivery of orders has been improving. The level of satisfaction among customers was thus raised.

We were making endeavors to enhance our competitiveness. Not only did we establish an international platform for our supply chain, but we also made use of an electronic order entry system, electronic logistics system, electronic warehouse and an electronic processing system in our operation. Moreover, our systems have been linked to an enterprise resource planning system. In 2009, we will develop a vendor collaboration system and global sales collaboration system in order to further strengthen our competitiveness.

BUSINESS OUTLOOK

Looking ahead to 2009, we expect sales volume for the handset industry to go down under the impact of the financial crisis, and the profitability of market players will inevitably be hit. Emerging markets will continue to be the major driver for growth of handset sales. However, in light of the ever changing operating environment, we believe that the introduction of entry-level products will barely meet the demand from the market and distributors. Our brands' position has to be further strengthened.

The Group will strive hard to maintain its market share in overseas markets and to minimize the impact resulting from the economic crisis. We will step up efforts in expanding our customer base and in reducing reliance on individual customers. In China, we are braced for opportunities arising from the development of 3G networks and we are putting great efforts into developing 3G businesses and enhancing our cooperation with distributors.

To tackle with the increasing challenges from the PRC market, the Group will pursue an "eminence" strategy to improve profit margins through enhancement of production innovation and the incorporation of more advanced technologies into products. We will develop and add more value-added features to existing products such as data cards, etc.

At the same time, the Group will adjust its global procurement and development strategies. We will develop a sales planning system based on product lifecycle management so that the communication process from sale to actual production will be streamlined, enabling it to more promptly respond to the market's needs. We will reduce procurement costs and exercise stringent cost control at various stages by increasing the level of standardization for parts procurement.

Currently, the Group has 13 models of mobile phones being approved under the government's Rural Subsidy Scheme. The Group will grasp this opportunity to beef up cooperation with designated logistic service providers in various regions. We will boost marketing efforts and strengthen distribution channels in order to penetrate into the third and fourth tiers of the market. This will also improve our after-sales service. In order to identify real needs in the market, we will develop a database of rural consumers and carry out promotional activities according to the specific requirements of different areas.

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

Li Dongsheng
Chairman

25 March 2009

ALONE IS ......

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL HIGHLIGHTS

- Total number of handsets and accessories sold reached 13.7 million in 2008, representing a year-on-year increase of 15% over 2007.
- Achieved profitability for the 3rd consecutive year, despite shrank global demand and lowered propensity for replacement.
- Profit before the impact of convertible bonds was HK$372,000 in 2008.
- 2009 full year sales target is over 10 million units of handsets.

INDUSTRY OVERVIEW

Although mobile handsets and service have increasingly become a must-have element of everyday life for billions of people, the annual growth rate of the overall handset industry experienced a slowdown in 2008. Total industry shipment increased to approximately 1.19 billion units, an increase of approximately 6% as compared with the double digit annual growth which the industry experienced in previous years. Growth in demand of new subscribers in emerging markets was softening. China and India continued to grow at a robust pace, but slightly below the rates achieved last year. Replacement sales in highly-penetrated markets were weak due to global financial crisis and unfavorable economic conditions.

Generally, the consumers had less disposable income available, which reduced their propensity to either upgrade their existing handsets, or to add a second handset. This was coupled with the fact that many post-paid customers were encouraged to sign 18-24 month contracts with their carriers, extending the replacement cycle and slowing growth. These factors were especially relevant in mature markets which were close to or above 100% penetration.

Combined audio, photograph transmission and voice transmission capability increased business and leisure productivity. While substantial improvements in these key functional areas were noticed by users, mobile handsets were also viewed in part as fashion accessories. The rapid technological changes coupled with the entry of many new manufacturers in China have made the businesses intensely competitive.

BUSINESS REVIEW

Amid overall economies had a significant impact on the mobile handset market, the Group maintained as a leading supplier of innovative and cost competitive wireless handsets products to customers globally. With its business alignment progressing as planned, the Group maintained its growth momentum despite relatively weak market conditions and reported profits for the whole year in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the group has restructured and promoted ALCATEL mobile phones with its new corporate brand appearance and marketing approach, positioning it as a leading innovative and quality mobile handsets brand of choice. Amid shortened life cycles of handsets, the Group's strategy is focused on expanding ALCATEL mobile phones product portfolio based on stylish design and high quality at affordable prices. It also reflects the bold, confident and dynamic image of ALCATEL mobile phones.

On 3G products front, the Group launched three 3G data devices in 2008, one USB modem and two USB dongle. Overall market response was encouraging. The latest 3G USB dongle launched in third quarter was a big success. Orders were received continuously with larger quantity.

REVIEW OF OPERATIONS

Driven by robust performances in key markets of EMEA[1] and LATAM[1], the Group recorded a global sales volume of 13.7 million units in 2008, representing a 15% increase when compared with that of last year. Sales in the PRC, accounting for 13% of total sales volume, recorded strong growth comparing with that of last year.

During 2008, average selling price of handsets was decreasing due to higher sales volume of entry level phones in emerging markets. The impact was offset by the Group's economy of scale and lowered raw material cost through volume consumption. Overall gross margin increased slightly to 18% compared to 17% in last year.

To tackle with the adverse economic situation, the Group has taken substantial steps to align its cost structure with the sharp decline in global markets. In addition, as it is always the Group's policy to balance sales volume growth and business risk, the Group has enhanced the credit approval process with regard to the orders size, settlement record as well as customers' history of operation.

Sales volume breakdown by location:

	Handsets and Accessories Unit Sales For the year ended 31 December		
('000 units)	**2008**	2007	Change (%)
Overseas	**11,969**	10,831	+11%
The PRC	**1,726**	1,079	+60%
Total	**13,695**	11,910	+15%

EMEA[1]

ALCATEL mobile phone OT-S211 was highly welcomed in EMEA as it brings more functionality to the ultra low cost segment. Other hit products including OT-S101,OT-S107 and OT-S210 have contributed to the solid results record during the year under review. Sales volume of the Group's EMEA operations achieved 5.4 million units, accounted for 39% of the Group's total sales volume.

The successful product strategy boosted market shares of the Group in Africa during the first half of 2008 while the Group gained more grounds in Europe in the second half. The fashionable and stylish brand image of ALCATEL mobile phone products led new orders from major operators in France and the OT-S620 has been selected as a signature product of the Orange Group. The Group's marketing initiatives in developing markets in Middle East started by its first shipment to Turkey during the fourth quarter.

LATAM[1]

Sales volume for the LATAM operations achieved 5.98 million units, representing a 14% increase compared to that of last year. The Group enhanced its products mix in this region through more mid to high-end models to improve ASP and operating results. However, LATAM customers became more conservative and place orders much slower than expected during the last six months due to the credit crisis and drastic slow down in the economy.

During the year under review, the Group continued to strengthen its presence in Central and South America markets, especially those in Brazil, Mexico, Argentina, Colombia and Dominica Republic. While implementing stagnant cost control measures, the operation of the sub-contracting facility in Juarez of Mexico starting from late 2007 significantly reduced the Group's costs in transportation and inventory.

The PRC[1]

During the year under review, the aggregated sales volume of TCL brand and Alcatel brand, as well as the accessories in the PRC increased by approximately 60% to 1.7 million units comparing that of last year.

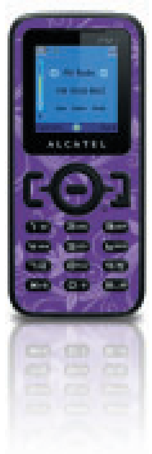
The Group executed aggressive price adjustment during the second quarter to clear the backlog. New models launched in the third quarter such as the M688+, M70 and A618 were positively received by the market. Both have positive impacts on the sales performance in the PRC market.

As the Group continued to focus on margin over volume, ASP in the PRC market was stabilized during the year through a balanced combination of products mix for different customers segments. In fact, this products mix had gained new customers for the Group and the strategy was a proven success.

Other Markets

The Group recorded encouraging results for its CDMA handsets with a total of 470,000 units sold. This represents a 88% increase compared with that of last year. 4 new CDMA products were launched during the year and received favorable response.

APAC[1] markets continued to show immense potential with sales increased by 36% to 540,000 handsets compared to the same period last year. Sales for the major markets in APAC region including Philippines, Israel and India remained stable, while strong sales in Fiji area contributed significantly to the segment's healthy results. With aggressive pricing strategy, the Group continued to expand its market share in India and enlarged the influence of Alcatel mobile phones brand amid fierce competition and weak economy.



PRODUCT DEVELOPMENT

In the period under review, the Group launched 25 products under the Alcatel brand and 24 products under the TCL brand. The Group was one of the leading manufacturers to bring an ultra low cost product in a compact and slim form factory by using an advanced component stack up technology. OT-V770 is the first super slim product at less than 10mm thick with an international quality standard. It is commented as a design flagship product of Alcatel mobile phones. The management believes that the Group's commitment in R&D programs will allow its products to remain competitive.

Under the product development strategy of the Group and its commitment to improve user experience, the Group has focused on streamlining its products offering through personalization design, user friendly interface and application functionality. Signature products launched during the year including OT-S211, OT-S321, OT-V212 and OT-V770 were well received by consumers. During the period under review, the Group also launched the first wave of China Chic series mobile phone under the TCL brand featuring "Fashion for Female" segment which was another proven success.

With its continuous efforts in development of 3G technologies and related products, the Group launched three 3G data devices in 2008. The latest 3G USB dongle was launched during the third quarter featuring 2 bands UMTS and 4 bands GSM. These 3G products support all major operating systems and auto installation with minimal user interventions. The accelerating shipment of the Group's 3G data devices in the fourth quarter reflected that the product definition has exceeded market expectation.

OUTLOOK

Looking forward, the Group will face a very fluctuating economic environment. The restructuring of China telecommunication operators creates massive business opportunities and growth potential in the Chinese communication market although the mobile handset business is highly competitive with both new and established competitors.

The primary focus of the Group is to continue to position itself as a preferred mobile handset manufacturer that offers world quality products at lower cost. The Group will further expand its market shares in the traditional voice and multimedia segments, while rolling out innovative 3G products globally. The management expects the Group's products offering will continue to demonstrate unique design with innovative features and functions. The Group plans to launch 14 new GSM products in 2009.

Geographically, the Group intends to increase its market shares through cautious expansion in global markets and penetrate new emerging markets mainly in Central America, Africa and India Ocean countries. The Group plans to extend its products offer with CDMA and Data Card solutions to new markets, especially in APAC, EMEA and the PRC.

In light of the current macro-economic environment, the Group has to continue to be extremely cost conscious and implement planned initiatives to maintain optimal cost structure and financial healthiness for the business going forward.

The Group will continue to take the necessary strategic actions to maintain stable growth for the business and improve profitability for future success and shareholders' value enhancement.

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")

FINANCIAL REVIEW

Results

For the year ended 31 December 2008, the Group's audited consolidated revenue amounted to HK$4,538 million (2007: HK$4,971 million), representing a year-on-year decrease of 9% as compared to that of last year.

The Group's gross profit margin rose to 18% from 17% in the same period of last year, despite the slump of global demand and general declining product prices.

EBITDA before effect of convertible bonds and profit attributable to equity holders of the parent were HK$91 million and HK$28 million respectively (2007: EBITDA before effect of convertible bonds and profit attributable to shareholders were HK$158 million and HK$33 million respectively). Profit before the effects of convertible bonds[2] is HK$0.4 million. Basic earnings per share was HK0.4 cents (2007: basic earnings per share were HK0.5 cents).

Inventory

The Group's inventory (only included finished goods) turnover period was 19 days (same period 2007 (restated): 29 days).

Trade Receivables

Credit period was 60-90 days on average and the trade receivables (including trade receivables and factored trade receivables) turnover was 90 days (same period 2007 (restated): 96 days).

Significant Investments and Acquisition

There was no significant investment and acquisition for the year ended 31 December 2008.

Fund Raising

There was no fund raising for the year ended 31 December 2008.

2 *Note:* 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 year. The cash and cash equivalents balances as at 31 December 2008 amounted to HK$663 million, of which 19% were in Renminbi, 65% in US dollars, 10% in Euro and 6% in Hong Kong dollars & other currencies for the operations. The Group's financial position remained healthy, with total assets of HK$4,543 million. The Group had a gearing ratio of 45% at the end of the year (31 December 2007: 33%) under review. The gearing ratio is calculated based on the Group's total interest-bearing borrowings (including those interest-bearing borrowing for RMB foreign exchange program) over total assets. Excluding the interest-bearing borrowing for RMB foreign exchange program, the gearing ratio was 16% (31 December 2007: 18%).

Pledge of Deposits

Deposit balance of approximately HK$1,670 million (31 December 2007: HK$959 million) represented the pledged deposit for certain RMB foreign exchange program of approximately HK$1,613 million and retention guarantee for factored trade receivables of approximately HK$57 million.

Capital Commitment and Contingent Liabilities

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

The Group had no contingent liabilities for the year ended 31 December 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. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employees and Remuneration Policy

The Group had approximately 4,700 employees as at 31 December 2008. Total staff costs for the year under review were approximately HK$463 million. The remuneration policy was in line with current legislation, market conditions and both individual and company performance.

JOYFUL IS ......

Mr. LI Dong Sheng

aged 51, is the founder and Chairman of the Company. He is also the Chairman, CEO and one of the founders of TCL Corporation. TCL has become one of the leading global consumer electronics enterprises based in China, since the acquisition of Thomson color television and Alcatel mobile phone businesses. Mr. Li was elected as a delegate to the 16th Party Congress, and the 10th and 11th National People's Congress.

Mr. LI Dongsheng

In 2008, Mr. Li received "Deloitte prize entrepreneurs" (in Barcelona); honored as "Economic Figure" of China's reform and opening up 30 years; He was named by China Times as 2008 China "Top Ten Outstanding CEOs", New York based, brands evaluation institute awarded him "the founder of the brand" in the 30 years of China's reform and opening up; He was also short-listed "Brand China 2008 Person of the Year." by Brandcn.com.

He received the Corporate Leadership award by the US-China Forum in Chicago in 2007. He was named "one of the most influential business leaders" by the China Entrepreneur Magazine in 2005 and 2006, "CCTV man of the Year in the Chinese Economy" in 2004, "Asia Businessman of the Year" by Fortune Magazine in 2004 and one of the Top 25 Global Business Leaders by Time Magazine and CNN in 2004. In the same year, Mr. Li received a medal of OFFICIER DE LA LEGION D'HONNEUR (French national honor).

Mr. Li also holds a number of prestigious positions including: Chairman of China Electronic Imaging Industry Association; Vice Chairman of China Chamber of International Commerce; Vice Chairman of China Tennis Association; Guest Professor of Wuhan University. He holds a Bachelor's Degree in Science from Hua'nan Polytechnic University.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Toe Yeung

Mr. WONG Toe Yeung

aged 69, is the Chief Executive Officer of the Company. He joined the Group in March 1999 and had been an Executive Director of the Company until 8 June 2006, and he was appointed again as an Executive Director of the Company since 30 May 2007. Mr. Wong has over 30 years of experience in the consumer electronics products industry.

Dr. LIU Fei

Dr. LIU Fei

aged 44, has more than 20 years of intensive experience in the worldwide wireless industry and management of multinational companies. He is an expert in business strategy and resources integration. Dr. Liu is a Senior Vice-President of TCL Corporation, an Executive Director of and the President of ALCATEL brand business of the Company. Between January 2005 and November 2008, Dr. Liu was appointed as Chief Executive Officer of the Company. He was the founder of JCT Mobile Technology Company in 2002 and held the post of President and CEO until 2004. From June 2001 to October 2002, he was a Senior Vice President of TCL Mobile, heading business and product strategy. Prior to joining TCL Mobile, Dr. Liu worked as the Wireless Strategic Business Development Manager of Texas Instruments for 7 years from 1995 to 2001, and a Staff Scientist and an Application Manager in Biomagnetic Technology Inc. for 5 years from 1991 to 1995. Dr. Liu received his Bachelor's degree and Master's degree from The University of Electronic Science and Technology of Chengdu ,then completed a Ph.D program jointly offered by The University of California-San Diego in USA and The University of Electronic Science and Technology of China in CDMA Communication System Analysis and Design.

Mr. YU Enjun

aged 41, is the Chief Operation Officer of the Company. He is also a Vice President of TCL Corporation. Mr. Yu joined TCL Corporation 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 an Entrepreneur MBA at China Europe International Business School.

Mr. YU Enjun

NON EXECUTIVE DIRECTORS

Mr. BO Lianming

aged 46, has over 8 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 in 2000, he was the Chief Accountant of Shenzhen Airlines, an officer of teaching and studies and a Deputy Faculty Officer of the Shanxi Institute of Finance and Economics, and a 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 Executive Vice President of TTE Corporation. Human Resources Director, Vice President and Senior Vice President of TCL Corporation. He is also an Executive Director and Chief Operating Officer of TCL Corporation, the Chairman of TCL Home Appliances Business Group.

Mr. BO Lianming

DIRECTORS AND SENIOR MANAGEMENT

Mr. HUANG Xubing

Mr. HUANG Xubing

aged 44, joined TCL Corporation in March 2001 and served as the Assistant of Vice President of TCL Corporation. In May 2002, he served as the 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. Mr. Huang has been the Vice President of TCL Corporation since April 2008, and concurrently been the Financial Director of TCL Corporation since June 2008.

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 Hunan College of Finance & Economics, majoring in Finance, and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, P.R.China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Cuiming

Mr. SHI Cuiming

aged 68, 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 a Deputy Director of the Department of Postal Economic Research and a Deputy Director General of the Bureau of Finance of the Ministry of Posts and Telecommunications. From 1987 to 1997, he was a 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 with their shares listed on the Main Board of the Hong Kong Stock Exchange and the New York Stock Exchange. He used to be the Chairman of CITIC 1616 Holdings Limited, and is currently the Senior Consultant of that company. Mr. Shi is also an Independent Non-Executive Director of China GreenTech Corporation Limited, a company with its shares listed on the NASDAQ Exchange.

Mr. LIU Chung Laung

aged 75, 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 an Independent Supervisor of MediaTek Incorporation, all being companies whose shares listed on the Taiwan Stock Exchange, and an Independent Non-executive Director of Delta Networks, Inc. , a company with its shares listed on the Hong Kong Stock Exchange.

Mr. LIU Chung Laung

Mr. LAU Siu Ki

aged 50, 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.

Mr. LAU Siu Ki

SENIOR MANAGEMENT

Dr. GUO Ai Ping, George

aged 45, is the President of the Company, responsible for human resources and administration. Prior to joining the Group, he held positions as a 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

aged 37, is an Executive Vice President of Alcatel Business Unit of the Company, responsible for Alcatel business. Mr. Wong joined the Company in 2005. He has 11 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's degree in Science and obtained his Master's degree in Electrical and Electronics Engineering at the Hong Kong University of Science & Technology.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yves MOREL

aged 48, is a Senior Vice President of the Company responsible for the Company's business in Europe, Middle East and Africa. Mr. Morel has 24 years sales and marketing experience mainly in Telecom industry. Prior to that, Mr. Morel was a Sales Area Director for Alcatel mobile phones from 2001 to 2005. He contributed to develop sales area such as Russia, central Europe, Middle East, Africa and at a later stage Western Europe. Prior to that he held several positions in sales at the PMR division (Private Mobile Radio) for Alcatel.

Mr. Nicolas ZIBELL

aged 41, is a 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 18 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. LIU Yuk Tung, Thomas

aged 45, is a Senior Vice President and Chief Financial Officer of the Company. Mr. Liu has over 20 years experience in areas of audit, international finance and trading business. Prior to joining the Company, he was the Asia Pacific Regional Financial Controller of Stratus Corporation in US, Sales and Marketing Director and General Manager of Neo-Neon Holdings Limited, a company with its shares listed on the Main Board of the Hong Kong Stock Exchange. Mr. Liu holds a Bachelor's degree major in Economics from the University of Hong Kong, a MBA from the University of New South Wales. He is also a CPA of HKICPA, Chartered Accountant of ICAEW and fellow member of ACCA.

Dr. WANG Jiyang

aged 39, is a Senior Vice President and General Manager of Shanghai R&D center of the Company, 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 an Engineer, a Project Manager, General Manager of Development Center, Vice General Engineer in TCL Mobile Communications Ltd. Dr. Wang graduated from the 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. WONG Toe Yeung *(Chief executive officer)*

Dr. LIU Fei

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

Dr. LIU Fei

Ms. PANG Siu Yin

CORPORATE INFORMATION

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

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 02618

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 2008, 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 ("NEDs") and 3 are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors:	LI Dongsheng *(Chairman)* WONG Toe Yeung *(Chief executive officer)* LIU Fei 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 19 to 24 of this Annual Report.

On 25 March 2009, Dr. YANG Xinping, Charles was appointed by the Board as the chief executive officer and an executive director of the Company with effect from 1 April 2009.

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.

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. Throughout the year of 2008, the Board at all times met the requirements for having at least 3 INEDs, and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. 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 INEDs, they, in addition to the executive directors, very often participate in the special Board meetings.

During 2008, the Board held 8 regular meetings at about quarterly intervals and 9 additional meetings (7 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 2008 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)*	4/8	3/7	0/2
WONG Toe Yeung *(Chief executive officer until 31 March 2009)*	7/8	7/7	0/2
LIU Fei	8/8	6/7	2/2
YU Enjun	7/8	4/7	2/2
Non-Executive Directors			
BO Lianming	7/8	7/7	N/A
HUANG Xubin	4/8	6/7	N/A
Independent Non-Executive Directors			
LAU Siu Ki	8/8	5/7	N/A
SHI Cuiming	8/8	7/7	N/A
LIU Chung Laung	5/8	6/7	N/A

(2) Board Committees

The Board delegates its responsibilities to 3 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. Details of which are set out in the section headed "Board Committees" below.

(3) 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.

(4) Operation

To effectively manage the business affairs of the Group, the Operation Executive Committee was set up for implementation of the objectives and strategic plans as approved by the Board or the Executive Committee. Currently the Operation Executive Committee comprises nine members, all of whom are senior executives from various units of the Company, and one secretary. The composition of the Operation Executive Committee is set out as follows:

Members

GUO Aiping
Alain LEJEUNE
LIU Fei
LIU Yuk Tung, Thomas
Yves MOREL
WONG Kwok Chung, Albert
YU Enjun
YUAN Yi (resigned on 26 February 2008)
Nicholas ZIBELL
WANG Jiyang (appointed on 26 February 2008)

Secretary

NIU Haizhen

The Operation Executive Committee is responsible for overseeing the day-to-day operations of the Group. Normally, the Operation Executive Committee meets once a month, and may convene additional meetings when necessary to handle urgent matters.

(5) 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 (the "AGM") after their appointment.

During 2008, no nomination and appointment of new directors was required.

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.
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 Board 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 NEDs/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

(6) Appointment, Re-election and Removal

One third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the AGM in each year, and the NEDs are elected to hold office for a specific term until the next AGM.

At the last AGM held on 21 April 2008, one-third of the directors (namely Mr. LI Dongsheng, Dr. LIU Fei and Mr. BO Lianming) were subject to retirement by rotation and were re-elected. All the other non-executive directors (namely Mr. HUANG Xubin, Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung) were elected to hold office for a specific term until the next AGM to be held in 2009.

Dr. YANG Xinping, Charles whose appointment as an executive director with effect from 1 April 2009 will be subject to election by shareholders of the Company in the next AGM to be held in 2009.

(7) Roles of Chairman and Chief Executive Officer

The position of the Chairman is held by Mr. LI Dongsheng, while the position of the Chief Executive Officer had been held by Dr. LIU Fei up to 18 November 2008 and taken up by Mr. WONG Toe Yeung thereafter. 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. Mr. WONG Toe Yeung will resign as the Chief Executive Officer of the Company on 1 April 2009 and Dr. YANG Xinping, Charles has been appointed as the Chief Executive Officer and an executive director of the Company with effect from 1 April 2009.

(8) 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 enquiries have been made with all directors who have confirmed that throughout year 2008, 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 2008 are set out on Pages 44 to 51 of this Annual Report.

The Board has set up three Board Committees. The three committees under the Board are 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.

BOARD COMMITTEES

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

(1) Remuneration Committee

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

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 2008, the full Remuneration Committee met twice and accomplished the following:

- reviewing the Group's expenses and changes on staff remuneration in 2008;
- reviewing the levels of remuneration and bonus plan of certain executive directors and senior management of the Group; and
- making recommendation on granting of restricted shares to certain senior management of the Group.

Attendance of each member at the Remuneration Committee meeting in 2008 is as follows:

	Number of committee meeting attended/eligible to attend
SHI Cuiming *(Chairman)*	2/2
LAU Siu Ki	2/2
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 plan which comprises the share option scheme and the restricted share scheme. 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 plan 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 benefit or award granted under the plan will only be vested over a period of time so as to provide an incentive for the executives or employees 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
- restricted shares or share options of the Group under the long term incentive plan, 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 2008, the fees in respect of audit and non-audit services payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK$4,701,000 and HK$1,116,000 respectively. Non-audit services provided by Messrs Ernst & Young included mainly tax services and financial instrument knowledge training.

(2) Audit Committee

The Audit Committee currently comprises two INEDs and one NED, 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 is governed by its terms of reference, which are available at the Group's website at tclcom.tcl.com.

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 2008 includes consideration of the following matters:

- the completeness and accuracy of the 2007 annual and 2008 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 2007;
- review of the effectiveness of the system of internal control of the Group;
- the audit fees payable to external auditors for year 2008; and
- 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.

During 2008, 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
BO Lianming	4/4

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 established in April 2008 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decision for the management of the Group. The Executive Committee currently comprises three executive Directors, namely Mr. LI Dongsheng, Mr. WONG Toe Yeung and Dr. LIU Fei.

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 for the year 2008.

(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. During the year under review, the Company conducted a review of the effectiveness of the internal control system of the Group. For the year of 2008, no critical internal control issues have been identified.

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.tclcomm@tcl.com or directly by raising questions at the general meeting of the Company.

HUMAN RESOURCES & SOCIAL RESPONSIBILITIES

The company has high regards for its employees and considers them as part of its most valuable assets. As at 31 December 2008, the Company had a total of 4,700 employees. It is committed to cultivate a working environment that encourages communication, team building and sense of belonging. The company offers social and business insurance in accordance with the relevant state laws and regulations as well as competitive remuneration packages to employees, performance evaluation through result oriented KPI system as well as the efficiency system and providing an equal and fair working environment.

The company places great emphasis on upgrading employee's professional skills and establishing a learning organization, offering room for individual staff's personal growth. In 2008, the Company introduced a number of innovative methods to add value to its human resources. These included inviting well known training organizations from Taiwan 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 & marketing, human resources, finance, English language and team development. All in all, during the year under review, the Company's employees received, on average, 58 hours of training and achieved an overall passing rate of 98%. Not only did these training sharpen the middle and top management's leadership and management skills, they also offered general staff at working level an opportunity to improve their skills at work.

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

As one of the key members of TCL Corporation, we have actively supported the Group's charity work. Since 1996, TCL Corporation and her staff have donated in aggregate of approximately RMB100 million in cash and supplies. TCL is one of the corporations in the PRC which implements responsibility as a part of the corporate strategy, with a corporate vision of "Being a respectable and initiative global leading corporation". Currently, all the seniors and staff of TCL Corporation are paying so much effort on the social responsibility including charity and education, to support the weak and those in danger, staff welfare and environmental protection.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") are pleased to present the audited financial statements of the Company and the Group for the year ended 31 December 2008.

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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 155.

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 156. 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 BONDS AND SHARE OPTIONS

Details of movements in the Company's share capital, convertible bonds and share options during the year was disclosed in notes 36, 32 and 37 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

During the period under review, the Company repurchased 62,748,000 shares on the Stock Exchange at an aggregate price of HK$19,848,000. 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. Save as aforesaid, 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 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, 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 27% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Purchases from the Group's five largest suppliers accounted for 22% of the total purchases for the year and purchase from the largest supplier included therein amounted to 6%.

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 44(a) to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors:

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

Non-executive Directors:

Mr. BO Lianming
Mr. HUANG Xubin

Independent non-executive Directors:

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

In accordance with article 87(1) of the Company's Articles of Association, Mr. WONG Toe Yeung, Dr. LIU Fei, Mr. BO Lianming and Mr. HUANG Xubin will retire by rotation at the conclusion of the forthcoming AGM of the Company. Dr. Liu will not offer himself for re-election at the AGM. Mr. Wong will only offer himself for re-election as a non-executive Director. Both Mr. Bo and Mr. Huang will also hold their office until the conclusion of the AGM and they will offer themselves for re-election at the AGM. Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung will also hold office until the conclusion of the forthcoming AGM. All of them being eligible, will offer themselves for re-election at the AGM. Mr. WONG Toe Yeung, Mr. BO Lianming, Mr. HUANG Xubin, Mr. LAU Siu Ki, Mr. SHI Cuiming and Mr. LIU Chung Laung, if elected, will hold office until the conclusion of the next AGM to be held in 2010.

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 19 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2008, 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 44 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 44 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 2008, 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 pursuant to the Model Code 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	153,074,800	2.14%
Dr. LIU Fei	Beneficial owner	200,000	0.003%
Mr. WONG Toe Yeung	Interest of spouse/ Interest held jointly with spouse *(Note)*	565,715,000	7.91%
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 16,762,000 shares of the Company, Mr. WONG Toe Yeung and his spouse, Ms. LEUNG Lai Bing, are jointly the beneficial owners.

(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 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant	Exercise period (both dates inclusive) *(Notes 1, 2, 3 and 4)*	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
	26,512,049	–	–	–	26,512,049				
Dr. 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				
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				
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				

(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 year: (continued)

	Number of share options								
Name or category of participant	At 1 January 2008	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	At 31 December 2008	Date of grant	Exercise period (both dates inclusive) *(Notes 1, 2, 3 and 4)*	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. 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	–	–	(4,379,994)	21,190,929	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
	84,038,000	–	(13,778,332)	(4,105,000)	66,155,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
	147,596,666	–	(11,789,999)	(12,138,667)	123,668,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
	274,447,072	–	–	(43,945,534)	230,501,538	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
Sub-Total	531,652,661	–	(25,567,999)	(64,569,195)	441,515,467				
Those who have	40,643,854	–	–	(5,023,641)	35,620,213	31 May, 2005	1 March 2006 to 30 May 2010	0.3804	0.41
contributed or	20,188,000	–	(784,000)	(2,640,000)	16,764,000	16 January, 2006	17 July 2006 to 15 January 2011	0.2108	0.22
may contribute	11,250,000	–	–	–	11,250,000	30 June, 2006	1 April 2007 to 30 June 2011	0.232	0.228
to the Group	64,126,800	–	–	(2,966,850)	61,159,950	5 July, 2007	5 April 2008 to 4 July 2012	0.31	0.31
Sub-Total	136,208,654	–	(784,000)	(10,630,491)	124,794,163				
Total	807,382,351	–	(26,351,999)	(75,199,686)	705,830,666				

Notes:

1. 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.

(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 year: (continued)

Notes: (continued)

2. 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.

3. 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.

4. 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.

5. The following assumptions were used to derive the fair value of the options granted in the previous years, 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

(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 year: (continued)

Options granted on 16 January 2006

		At Grant Date	Modification on 30 June 2006		Modification on 3 July 2007	
(i)	Exercise Period	17 October 2006 to 15 July.2009	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		

Options granted on 5 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 comparators' share prices.

BMI Appraisals Limited 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 5 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	285,393,851	2.79%	2
Mr. WONG Toe Yeung	TCL Multimedia	Interest of controlled corporation/ Interest held jointly with spouse	119,602,727	1.17%	2,3
Mr. BO Lianming	TCL Corp	Beneficial owner	713,192	0.03%	1
Mr. BO Lianming	TCL Multimedia	Beneficial owner	5,178,072	0.05%	2

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.

3. Mr. WONG Toe Yeung is deemed to be interested in 113,384,727 shares of TCL Multimedia held by Top Scale Company Limited which is wholly-owned by Mr. Wong and the remaining 6,218,000 shares of TCL Multimedia are jointly held by Mr. Wong and his spouse, Ms. LEUNG Lai Bing.

(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	31,947,571	0.31%
Mr. BO Lianming	TCL Multimedia	Beneficial owner	4,195,333	0.04%
Mr. HUANG Xubin	TCL Multimedia	Beneficial owner	2,952,290	0.03%

Save as disclosed above, as at 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES, UNDERLYING SHARES OR DEBENTURES

Save as disclosed above and in the "Share Option Scheme" and "Share Award Scheme" disclosed in note 37 and 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 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 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 held jointly with spouse/ Interest of spouse	592,227,049	8.28%	2
The MAG Foundation	Other	548,953,000	7.68%	2
Norrell Overseas Invest Ltd.	Beneficial owner	548,953,000	7.68%	2

Notes:

1. 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.

2. Ms. LEUNG Lai Bing is deemed to be interested in (a) 565,715,000 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 16,762,000 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.

Save as disclosed above, as at 31 December 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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2008, 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. The said master manufacturing agreement shall be for a term of 3 years from the date of the agreement to 29 June 2008, and the management of the Company has decided not to renew the agreement any more.

   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 no consideration under the said master manufacturing 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) as lessee and Shenzhen TCL Central R&D Co., Ltd. ("Industrial Institute", a subsidiary of TCL Corp) as landlord, pursuant to which premises at Floors 8 and 15 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Group 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$3,105,000.

c) On 27 October 2006, a financial service framework agreement was entered into among the Company, TCL Corp and TCL Finance Co., Ltd. (the "Finance Company", a non-wholly owned subsidiary of TCL Corp), 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 term of the said financial service framework agreement is 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 deposit services under the said financial service framework agreement and its proposed caps 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$397,491,000 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 said 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$5,664,000 under the said brand promotion agreement.

e) On 29 December 2006, a master supply agreement was entered into between the Company and TCL Corp regarding the following for a term of 3 years effective on 15 February 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 said 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) were HK$415,100,000, HK$90,868,000 and nil respectively under the said master supply agreement.

f) On 6 June 2007, a 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 Corp) for a term of 3 years from the date of the said technology cooperation agreement. Pursuant to the said technology cooperation 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 said technology cooperation agreement were set out in the announcement of the Company dated 3 July 2007.

   During the year, the Group contributed HK$899,000 under the said technology cooperation agreement.

g) On 10 September 2007, a framework agreement was entered into between TCT Mobile International Limited ("TCT" formerly T&A Mobile Phones International Limited, a wholly-owned subsidiary of the Company) and TTE Corporation ("TTE", a wholly owned subsidiary of TCL Multimedia), pursuant to which TTE and its subsidiaries ("TTE Group") agree (i) to procure the materials from TCT; (ii) to manufacture, assemble and/or test the products, as well as provide related services pursuant to TCT'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 TCT at the price, whereas TCT 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 respectively.

   The said 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$179,655,000 of raw materials to TTE and purchased HK$210,491,000 of products from TTE Group.

h) On 15 August 2008, a lease agreement was entered into between JRDC (Shenzhen) as lessee and Industrial Institute as landlord, pursuant to which premises at Floors 16 and 17 and Room B302 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Group for office use. The term of the said lease agreement is from 1 October 2008 to 31 December 2009.

Further details of the said lease agreement were set out in the announcement of the Company dated 15 August 2008.

During the year, the total rental paid by JRDC (Shenzhen) amounted to HK$648,000.

i) On 9 September 2008, an equipment purchase agreement was entered into between Huizhou TCL Mobile Communication Co., Ltd. ("Huizhou TCL Mobile", a wholly owned subsidiary of the Company) and TCL Communication Equipment (Huizhou) Co., Ltd. ("TCL Communication Huizhou", an indirect wholly owned subsidiary of TCL Corp), pursuant to which Huizhou TCL Mobile agrees to purchase certain equipment for the expansion of its production capacity from TCL Communication Huizhou at a cash consideration of RMB24,613,000 (equivalent to approximately HK$28,051,000).

Further details of the said equipment purchase agreement were set out in the announcement and circular of the Company dated 9 September 2008 and 29 September 2008 respectively.

The said equipment purchase agreement was duly approved by the shareholders of the Company in an extraordinary general meeting held on 16 October 2008.

The INEDs have reviewed the continuing connected transactions set out above and in note 44 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 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 28 to 38 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.

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 2008 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
25 March 2009

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安 永

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 60 to 155, which comprise the consolidated and company balance sheets as at 31 December 2008, 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.

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 2008 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

25 March 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	8	**4,538,281**	4,971,081
Cost of sales		**(3,726,663)**	(4,123,975)
Gross profit		**811,618**	847,106
Other income and gains	8	**273,391**	70,722
Research and development costs	9	**(262,924)**	(173,343)
Selling and distribution costs		**(389,388)**	(336,954)
Administrative expenses		**(393,191)**	(330,643)
Other operating expenses		**(1,588)**	(1,510)
Finance costs excluding interest on convertible bonds	10	**(28,393)**	(16,185)
Share of losses of an associate		**–**	(16,943)
Share of losses of a jointly controlled entity		**(1,399)**	–
		8,126	42,250
Changes in fair value of the derivative component of convertible bonds		**68,078**	(10,041)
Interest on convertible bonds	10	**(39,959)**	(22,747)
PROFIT BEFORE TAX	9	**36,245**	9,462
Tax	12	**(7,754)**	23,601
PROFIT FOR THE YEAR		**28,491**	33,063
Attributable to:			
Equity holders of the parent		**28,491**	33,063
DIVIDENDS			
Interim and final	14	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (HK cents)	15		
Basic		**0.40**	0.50
Diluted		**0.01**	0.50

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**261,608**	243,898
Prepaid land lease payments	17	**16,404**	17,137
Intangible assets	18	**49,690**	38,997
Deferred tax assets	35	**26,789**	34,437
Goodwill	19	**146,856**	146,856
Available-for-sale investments	22	**20,244**	20,207
Interest in a jointly controlled entity	21	**3,934**	5,340
Other non-current assets		**2,367**	802
Total non-current assets		**527,892**	507,674
CURRENT ASSETS			
Inventories	23	**229,998**	461,495
Trade receivables	24	**836,819**	1,015,407
Factored trade receivables	25	**153,392**	199,652
Notes receivable		**16,958**	67,061
Prepayments, deposits and other receivables		**253,971**	329,238
Due from related companies	44(b)	**17,376**	35,630
Tax recoverable		**29,347**	33,210
Derivative financial instruments	30	**143,802**	–
Pledged deposits	26	**1,670,499**	958,738
Cash and cash equivalents	26	**663,437**	708,716
Total current assets		**4,015,599**	3,809,147
CURRENT LIABILITIES			
Interest bearing bank and other borrowings	27	**1,752,930**	838,791
Trade and notes payables	29	**590,654**	1,052,376
Bank advances on factored trade receivables		**153,392**	199,652
Derivative financial instruments	30	**68,897**	9,495
Tax payable		**440**	1,724
Other payables and accruals		**557,640**	551,654
Provision for warranties	31	**59,406**	71,358
Due to related companies	44(b)	**144,606**	167,842
Total current liabilities		**3,327,965**	2,892,892
NET CURRENT ASSETS		**687,634**	916,255
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,215,526**	1,423,929

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CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,215,526**	1,423,929
NON-CURRENT LIABILITIES			
Retirement indemnities	33	**2,367**	1,691
Long service medals	34	**1,030**	977
Convertible bonds	32	**142,058**	368,838
Interest bearing bank and other borrowings	27	**5,268**	–
Total non-current liabilities		**150,723**	371,506
Net assets		**1,064,803**	1,052,423
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	36	**715,050**	718,689
Shares held for Share Award Scheme	38	**(47,823)**	(9,570)
Reserves	39(a)	**397,576**	343,304
Total equity		**1,064,803**	1,052,423

LI Dong Sheng
Director

WONG Toe Yeung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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$'000 (note 39 (a))	Statutory reserves HK$'000 (note 39 (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
Exchange realignment	–	–	–	–	–	–	–	–	67,806	–	67,806
Total income and expense 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
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)
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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	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$'000	Hedging reserve HK$'000	Contributed surplus HK$'000 (note 39 (a))	Statutory reserves HK$'000 (note 39 (a))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity 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
Effective portion of changes in fair value on cash flow hedges, net of deferred tax	–	–	–	–	–	(6,509)	–	–	–	–	(6,509)
Exchange realignment	–	–	–	–	–	–	–	–	18,779	–	18,779
Total income and expense recognised directly in equity	–	–	–	–	–	(6,509)	–	–	18,779	–	12,270
Profit for the year	–	–	–	–	–	–	–	–	–	28,491	28,491
Total income and expense for the year	–	–	–	–	–	(6,509)	–	–	18,779	28,491	40,761
Issue of shares and exercise of share options	2,635	5,952	–	–	(2,782)	–	–	–	–	–	5,805
Share repurchased	(6,274)	(13,732)	–	–	–	–	–	–	–	–	(20,006)
Equity-settled share option arrangements	–	–	–	–	22,480	–	–	–	–	–	22,480
Shares purchased for Share Award Scheme	–	–	(44,991)	8,331	–	–	–	–	–	–	(36,660)
Reclassification of vested shares	–	–	6,738	(5,489)	–	–	–	–	–	(1,249)	–
At 31 December 2008	715,050	1,576,958*	(47,823)	6,608*	68,607*	(6,509)*	232,555*	119,951*	101,464*	(1,702,058)*	1,064,803

* These reserve accounts comprise the consolidated reserves of approximately HK$397,576,000 (2007: HK$343,304,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**36,245**	9,462
Adjustments for:			
Share of losses of an associate		**–**	16,943
Share of losses of a jointly controlled entity		**1,399**	–
Interest income	8	**(23,837)**	(15,138)
Finance costs	10	**68,352**	38,932
Depreciation	9	**73,770**	107,342
Prepaid land lease recognised	9	**828**	709
Amortisation of computer software and intellectual property	9	**4,801**	7,698
Amortisation of deferred development costs	9	**59,676**	38,208
Gain on disposal of items of property, plant and equipment	9	**(23)**	(5,327)
Equity-settled share option expenses	9	**22,480**	21,225
Shares held for Share Award Scheme expenses	9	**8,331**	3,766
Gain on buyback of convertible bonds	8	**(57,444)**	–
Gain on sale of patent rights	8	**(15,500)**	–
Impairment loss of trade receivables and other receivables		**24,990**	6,117
Loss on forward contracts		**–**	9,495
Unrealised (profit)/loss on changes in fair value of derivative component of convertible bonds		**(68,078)**	10,041
		135,990	249,473
Decrease in inventories		**231,497**	119,921
Decrease in trade receivables		**160,930**	93,068
Decrease/(increase) in notes receivable		**50,103**	(6,809)
Decrease in factored trade receivables		**46,260**	56,831
Decrease in prepayments, deposits and other receivables		**99,169**	304,574
Increase in derivative financial assets		**(143,802)**	–
Increase in derivative financial liabilities		**52,893**	–
Decrease in amounts due from related companies		**48,786**	180,546
Decrease in trade and notes payables		**(461,722)**	(160,294)
Decrease in other payables and accruals		**(25,029)**	(230,812)
Decrease in provision for warranties		**(11,952)**	(9,637)
Decrease in amounts due to related companies		**(23,236)**	(323,670)
Increase in retirement indemnities		**806**	1,056
Increase in long service medals		**53**	574
Decrease in bank advances on factored trade receivables		**(46,260)**	(122,892)
Cash generated from operations		**114,486**	151,929
Tax paid		**(1,785)**	–
Interest paid		**(28,393)**	(16,185)
Net cash inflow from operating activities		**84,308**	135,744

continued/...

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000 (Restated)
Net cash inflow from operating activities		**84,308**	135,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Addition of prepaid land lease payments	17	**–**	(8,339)
Purchases of items of property, plant and equipment	16	**(82,507)**	(70,451)
Acquisition of intangible assets	18	**(75,111)**	(34,495)
Proceeds from disposal of intangible assets	18	**89**	5,156
Proceeds from disposal of items of property, plant and equipment		**3,351**	34,097
Acquisition of a subsidiary		**–**	(298,954)
Purchase of available-for-sale investments		**(37)**	–
Investment in a jointly controlled entity		**–**	(5,340)
Increase in other non-current assets		**(1,565)**	(212)
Increase in pledged deposits		**(711,761)**	(922,135)
Interest received		**8,103**	15,138
Net cash outflow from investing activities		**(859,438)**	(1,285,535)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of new shares by open offer and exercise of share options		**5,805**	4,264
Purchase of shares held for Share Award Scheme		**(44,991)**	(9,570)
Net proceeds from issue of convertible bonds		**–**	338,149
Convertible bonds issuance expenses		**2,566**	1,807
Subscription for new shares for acquisition of a subsidiary		**–**	268,093
Advance from ultimate controlling shareholder		**16,963,419**	4,996,068
Repayment of advance from ultimate controlling shareholder		**(16,993,951)**	(4,982,885)
Redemption of convertible notes		**–**	(185,100)
Buyback of convertible bonds		**(111,374)**	–
Shares repurchased		**(20,006)**	–
New bank loans		**2,461,264**	1,001,827
Repayment of bank loans		**(1,551,037)**	(163,036)
Capital element of finance lease		**9,180**	–
Net cash inflow from financing activities		**720,875**	1,269,617
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(54,255)**	119,826
Cash and cash equivalents at beginning of year		**708,716**	531,001
Effect of foreign exchange rate changes, net		**8,976**	57,889
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**663,437**	708,716
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents		**663,437**	708,716

BALANCE SHEET

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CURRENT ASSETS			
Due from subsidiaries	20	**1,064,803**	1,052,423
Other receivables		**8,427**	976
Cash and cash equivalents	26	**40,292**	1,243
Total current assets		**1,113,522**	1,054,642
CURRENT LIABILITIES			
Trade payables	29	**354**	417
Other payables and accruals		**35,914**	2,854
Total current liabilities		**36,268**	3,271
NET CURRENT ASSETS		**1,077,254**	1,051,371
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,077,254**	1,051,371
NON-CURRENT LIABILITIES			
Convertible bonds	32	**142,058**	368,838
Net assets		**935,196**	682,533
EQUITY			
Issued capital	36	**715,050**	718,689
Shares held for Share Award Scheme	38	**(47,823)**	(9,570)
Reserves	39(b)	**267,969**	(26,586)
Total equity		**935,196**	682,533

LI Dong Sheng
Director

WONG Toe Yeung
Director

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 on 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, forward options and the derivative component of the convertible bonds, which have 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries 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 directors approved a Share Award Scheme A ("Share Award Scheme A") 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 A. On 11 March 2008, the board of directors resolved to adopt another restricted Share Award Scheme B ("Share Award Scheme B") as an incentive to retain and encourage the employees for the continued operation and development of the Group. Pursuant to the rules of the Share Award Schemes, the Group has set up a trust for the purpose of administering the Share Award Schemes 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 HKAS 27.

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

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS *39 Financial Instruments: Recognition and Measurement and* HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC) – Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
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*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC) – Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC) – Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC) – Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC) – Int 17	*Distribution of Non-cash Assets to Owners*[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised), HKAS 23 (Revised) and HKFRS 2 Amendments may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively.

The result of a jointly-controlled entity is included in the Company's income statement to the extent of dividends received and receivable. The Company's investment in a jointly-controlled entity is treated as non-current asset and is stated at cost less any impairment losses.

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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

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, financial assets and goodwill), 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets other than goodwill (continued)

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 an 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 an 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);

(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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of 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 item of property, plant and equipment to its residual value over its estimated useful life. 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 on 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 least 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.

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 of property, plant and equipment when completed and ready for use.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 are charged to the income statement on the straight-line basis over the lease terms.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 financial assets at fair value through profit or loss, 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 contract 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These 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.

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. These techniques include using recent arm's length market transactions, and/or 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 a 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 expenses 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)

Financial liabilities at fair value through profit or loss

Financial liability at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. These 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.

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Fair value hedges (continued)

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.

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 grants

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 relates 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 two share award schemes 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 37. 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 38 to the financial statements, the Group has set up a trust ("Trust") for the Share Award Schemes, where the Trust purchases shares issued by 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 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

TCT Mobile Europe SAS ("TCT SAS") (formerly T&A 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, TCT 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 TCT 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 dates 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$261,608,000 (2007 (restated): HK$243,898,000). 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$6 million higher or lower in 2009.

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 2008 was approximately HK$146,856,000 (2007(restated): HK$146,856,000). More details are given in note 19.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences 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 2008 was HK$26,789,000 (2007: HK$34,437,000). The amount of unrecognised tax losses at 31 December 2008 was HK$2,571,640,000 (2007: HK$3,035,416,000). Further details are contained in note 35 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 2008, the best estimate of the carrying amount of capitalised development costs was HK$38,792,000 (2007: HK$26,823,000).

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 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.

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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**1,784,011**	2,078,038	**2,016,785**	1,810,964	**737,485**	1,082,079	**4,538,281**	4,971,081

	Europe 31 December		Latin America 31 December		The PRC (including Hong Kong) 31 December		Eliminations 31 December		Consolidated 31 December	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Segment assets	**507,276**	681,922	**164,364**	696,478	**4,705,328**	5,971,206	**(833,477)**	(3,032,785)	**4,543,491**	4,316,821
Capital expenditure	**1,014**	1,314	**4,258**	3,668	**152,346**	108,303	**–**	–	**157,618**	113,285

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:

	2008 HK$'000	2007 HK$'000
Revenue		
Sale of mobile phones and related components	**4,538,281**	4,971,081
Other income and gains		
Interest income	**23,837**	15,138
Subsidy income	**567**	17,509
VAT refund #	**37,401**	16,941
Value-added service income	**7,235**	6,579
Exchange gain, net	**124,830**	2,969
Gain on disposal of items of property, plant and equipment	**23**	5,327
Gain on buyback of convertible bonds	**57,444**	–
Gain on sale of patent rights	**15,500**	–
Others	**6,554**	6,259
Other income and gains	**273,391**	70,722

During the year ended 31 December 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%.

9. PROFIT BEFORE TAX

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

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**3,726,663**	4,123,975
Depreciation	16	**73,770**	107,342
Prepaid land lease recognised	17	**828**	709
Amortisation of computer software and intellectual property	18	**4,801**	7,698
Research and development costs:			
Deferred expenditure amortised	18	**59,676**	38,208
Current year expenditure		**203,248**	135,135
		262,924	173,343
Brand management fee/TCL Brand Common Fund		**5,664**	4,350
Minimum lease payments under operating leases in respect of land and buildings		**16,910**	19,426
Auditors' remuneration		**6,037**	4,714
Employee benefits expense (including directors' remuneration (note 11)):			
Salaries and wages		**403,346**	275,502
Equity-settled expenses:			
Share options		**22,480**	21,225
Share Award Scheme		**8,331**	3,766
Pension scheme contributions:			
Defined contribution scheme		**27,567**	14,962
Defined benefit schemes	33	**806**	1,056
		462,530	316,511
Impairment loss of trade receivables		**17,658**	4,723
Impairment loss of other receivables		**7,332**	1,394
Product warranty provisions	31	**65,116**	130,221
Gain on disposal of items of property, plant and equipment		**(23)**	(5,327)

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**18,338**	7,542
Interest on discounted notes and factored trade receivables*	**10,055**	5,190
Interest on convertible notes	**–**	3,453
Finance costs excluding interest on convertible bonds	**28,393**	16,185
Interest on convertible bonds**	**39,959**	22,747
Total finance costs	**68,352**	38,932

* The effective interest rate of factored trade receivables is 0.53% per month.

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

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	
	2008 HK$'000	2007 HK$'000
Fees	**1,300**	1,186
Other emoluments:		
Salaries, allowances and benefits in kind	**4,585**	1,573
Equity-settled share option expense	**3,751**	3,586
Pension scheme contributions	**33**	24
	9,669	6,369

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

In prior years, 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 37 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 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:

	2008	2007
	HK$'000	HK$'000
Mr. Shi Cuiming	**180**	180
Mr. Liu Chunglaung (appointed on 30 May 2007)	**180**	105
Mr. Lau Siu Ki	**180**	180
Mr. Wang Chongju (retired on 30 May 2007)	**–**	75
	540	540

In prior years, certain 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 37 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 no amount (2007: HK$35,000) recognised in the income statement for the current year is included in the above directors' remuneration disclosures.

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

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

2008	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**	**–**	**638**	**7**	**775**
Dr. Liu Fei	**130**	**2,854**	**1,401**	**12**	**4,397**
Mr. Wong Toe Yeung, Chambers	**130**	**–**	**638**	**–**	**768**
Mr. Yu Enjun	**130**	**1,731**	**659**	**14**	**2,534**
Non-executive directors:					
Mr. Bo Lianming	**120**	**–**	**267**	**–**	**387**
Mr. Huang Xubin	**120**	**–**	**148**	**–**	**268**
	760	**4,585**	**3,751**	**33**	**9,129**

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)

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 two (2007: one) directors, details of whose remuneration are set out above.

Details of the remuneration of the remaining three (2007: four) non-directors, highest paid employees for the year are as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries, allowances and benefits in kind	**7,705**	7,460
Equity-settled share option expense	**1,803**	2,014
Pension scheme contributions	**12**	–
	9,520	9,474

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

	Number of non-directors and employees	
	2008	2007
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
	3	4

In prior years, 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 37 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:

	2008 **HK$'000**	2007 HK$'000
Current year provision:		
The PRC	**76**	–
Mexico	**–**	–
Deferred (note 35)		
The PRC	**6,509**	(20,532)
Mexico	**1,169**	(3,069)
Tax charge/(credit) for the year	**7,754**	(23,601)

No Hong Kong profits tax has been provided (2007: 17.5%) since no assessable profit arose in Hong Kong during the year. 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. By end of 2008, TCL Mobile obtained its high technology enterprise accreditation and hence was subject to a national income tax rate of 15% from 2008 to 2010.

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. 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 25% from year 2008 onwards.

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. JRD Communication (Shenzhen) has taxable profit but exempt from corporate income tax in 2008 (2007: Nil).

12. TAX (continued)

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

In 2007, TCT Mobile SA DE CV (formerly known as T&A Mobile Phones S.A. de C.V Limited) was subject to tax on assets at a tax rate of 1.25% over its 2006 average specific assets balance. The Business Flat Tax Law ("LIETU") went into effect on 1 January 2008. LIETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, less certain authorised deductions. LIETU payable is calculated by subtracting certain tax credits from the tax determined. Revenue, deductions and certain tax credits, are determined based on cash flows generated starting from 1 January 2008. The tax rate is 16.5% in 2008, 17% in 2009, and 17.5% as of 2010. The assets tax law was repealed upon enactment of LIETU.

In 2008, TCT Mobile-Telefones LTDA (formerly known as 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.

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:

	2008		2007	
	HK$'000	**%**	HK$'000	%
Profit before tax	**36,245**		9,462	
Tax at the applicable rates	**29,410**	**81.1**	52,164	551.3
Lower tax rates for specific provinces or local authorities	**(68,771)**	**(189.8)**	(48,532)	(512.9)
Effect on opening deferred tax of decrease in rates	**11,053**	**30.5**	–	–
Income not subject to tax	**(34,986)**	**(96.5)**	(19,895)	(210.3)
Expenses not deductible for tax	**105,393**	**290.8**	69,707	736.7
Tax losses utilised	**(53,468)**	**(147.5)**	(121,723)	(1,286.4)
Tax losses not recognised	**19,123**	**52.8**	44,678	472.2
Tax charge/(credit) at the Group's effective rate	**7,754**	**21.4**	(23,601)	(249.4)

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 2008 includes a profit of HK$281,044,000(2007: loss of HK$196,684,000) which has been dealt with in the financial statements of the Company (note 39(b)).

14. DIVIDENDS

No dividend has been paid or declared by the Company for the years ended 31 December 2007 and 2008.

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

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

Profit	**2008** **HK$'000**	2007 HK$'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculations	**28,491**	33,063
Interest on convertible bonds	**19,755**	–
Less: Fair value gain on the derivative component of the convertible bonds	**(47,195)**	–
Profit for the purposes of diluted earnings per share	**1,051**	33,063

Shares	**Number of shares** **2008**	2007
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**7,157,766,813**	6,572,893,734
Effect of dilution – weighted average number of ordinary shares:		
Deemed conversion of all convertible bonds	**537,102,500**	–
Assumed issuance upon the exercise of share options	**–**	70,129,104
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**7,694,869,313**	6,643,022,838

The calculation of the diluted earnings per share for the year ended 31 December 2008 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 higher than the fair market value of the ordinary shares, the share options outstanding during the year had an anti-dilutive effect on the Company. Because the diluted earnings per share amount is decreased when taking convertible bonds into account, the convertible bonds had a diluted effect on the earnings per share for the year and were considered in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year of HK$28,491,000, adding back the interest on convertible bonds of HK$19,755,000 and deducting fair value gain on the derivative component of the convertible bonds of HK$47,195,000.

The calculation of basic earnings per share has included the impact on changes in fair value of the derivative component of convertible bonds.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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	Construction in progress HK$'000	Total HK$'000
31 December 2008						
At 31 December 2007 and at 1 January 2008:						
Cost	77,706	490,184	123,890	8,649	–	700,429
Accumulated depreciation and impairment	(11,723)	(360,665)	(79,399)	(4,744)	–	(456,531)
Net carrying amount	65,983	129,519	44,491	3,905	–	243,898
At 1 January 2008, net of accumulated depreciation and impairment	65,983	129,519	44,491	3,905	–	243,898
Additions	1,603	56,489	16,883	3,187	4,345	82,507
Disposals	–	(33,110)	(7,443)	(2,613)	–	(43,166)
Depreciation and impairment provided during the year	(3,422)	(55,154)	(13,484)	(1,710)	–	(73,770)
Written back on disposals	–	32,774	5,028	2,036	–	39,838
Exchange realignments	3,440	7,886	1,224	(249)	–	12,301
At 31 December 2008, net of accumulated depreciation and impairment	67,604	138,404	46,699	4,556	4,345	261,608
At 31 December 2008:						
Cost	83,526	542,871	138,617	9,224	4,345	778,583
Accumulated depreciation and impairment	(15,922)	(404,467)	(91,918)	(4,668)	–	(516,975)
Net carrying amount	67,604	138,404	46,699	4,556	4,345	261,608

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$'000 (Restated)	Motor vehicles HK$'000	Total HK$'000 (Restated)
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 40)	–	6,800	33,072	1,290	41,162
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
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	44,491	3,905	243,898
At 31 December 2007:					
Cost	77,706	490,184	123,890	8,649	700,429
Accumulated depreciation and impairment	(11,723)	(360,665)	(79,399)	(4,744)	(456,531)
Net carrying amount	65,983	129,519	44,491	3,905	243,898

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 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	–	–	–	–
Accumulated depreciation and impairment	–	–	–	–
Net carrying amount	–	–	–	–
At 31 December 2008, net of accumulated depreciation	–	–	–	–
At 31 December 2008:				
Cost	–	–	–	–
Accumulated depreciation and impairment	–	–	–	–
Net carrying amount	–	–	–	–

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	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 and impairment	(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 and impairment	–	–	–	–
Net carrying amount	–	–	–	–

The net book value of the Group's fixed assets held under finance leases included in the total amount of plant and machinery at 31 December 2008 amounted to HK$14,680,000.

17. PREPAID LAND LEASE PAYMENTS

	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**17,137**	11,219
Additions	**–**	8,339
Recognised during the year	**(828)**	(709)
Exchange realignment	**95**	(1,712)
Carrying amount at 31 December	**16,404**	17,137

As at 31 December 2008, 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 HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	Total HK$'000
31 December 2008					
Cost at 1 January 2008, net of accumulated amortisation	26,823	10,900	157	1,117	38,997
Additions	71,973	2,449	349	340	75,111
Retirements and disposals	–	–	(89)	–	(89)
Amortisation provided during the year	(59,676)	(4,774)	(27)	–	(64,477)
Exchange realignment	(328)	463	13	–	148
At 31 December 2008	38,792	9,038	403	1,457	49,690
At 31 December 2008:					
Cost	137,109	19,599	1,425	1,457	159,590
Accumulated amortisation	(98,317)	(10,561)	(1,022)	–	(109,900)
Net carrying amount	38,792	9,038	403	1,457	49,690

18. INTANGIBLE ASSETS (continued)

Group (continued)

	Deferred development costs HK$'000	Computer software HK$'000	Intellectual property HK$'000	Golf club membership HK$'000	Total 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 40)	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

Company

	Total HK$'000
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	–
Amortisation provided during the year	–
Disposal during the year	–
At 31 December 2008	–
At 31 December 2008:	
Cost	–
Accumulated amortisation	–
Net carrying amount	–

18. INTANGIBLE ASSETS (continued)

Company (continued)

	Total 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	–

19. GOODWILL

Group

	2008 HK$'000	2007 HK$'000 (Restated)*
Cost at 1 January	**146,856**	8,785
Acquisition of a subsidiary (note 40)	**–**	138,071
Impairment during the year	**–**	–
Cost at 31 December	**146,856**	146,856
At 31 December:		
Cost	**146,856**	146,856
Accumulated impairment	**–**	–
Net carrying amount	**146,856**	146,856

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

19. GOODWILL (continued)

The recoverable amount of the 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 5% and cash flows within the five-year period extrapolated using a growth rate of -1% of revenue for 2009 and 6% for years from 2010 to 2013.

Key assumptions were used in the value in use calculation of the mobile handsets cash-generating units for 31 December 2008. 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 fees 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 the PRC on newly established high technology software enterprises, the cash-generating unit is entitled to exemption from 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 a newly established high technology software enterprise.

(f) No dividend is paid from years 2009 to 2013.

(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.

* On 3 July 2007, the Group completed the acquisition of a 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 2008. By the year end of 2007, the initial accounting for the acquisition of JRDC had been determined only provisionally because the fair values to be assigned to JRDC's identifiable assets, liabilities and contingent liabilities could be determined only provisionally. In July 2008, the Group have recognised negative adjustments of HK$9,036,000 to the provisional fair values as a result of completing the initial accounting. Therefore, the comparative information has been presented as if the initial accounting had been completed from the acquisition date in accordance with HKFRS 3.

20. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost	**1,661,641**	1,661,641
Due from subsidiaries	**1,314,638**	1,536,830
Impairment loss of interests in subsidiaries	**(1,911,476)**	(2,146,048)
	1,064,803	1,052,423

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 interests in subsidiaries are as follows:

	Company 2008 HK$'000	Company 2007 HK$'000
At 1 January	**2,146,048**	2,009,963
Impairment loss (reversed)/recognised	**(234,572)**	136,085
	1,911,476	2,146,048

Impairment loss of interests in subsidiaries is provided based on the net assets 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 Direct	Percentage of attributable equity interest Indirect	Principal activities
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	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Manufacturing and sale of mobile phones
TCT Mobile Europe SAS (formerly known as "T&A Mobile Phones SAS")	France 1 January 2004	EUR23,031,072	–	100%	Development and distribution of mobile phones
TCT Mobile SA DE CV (formerly known as "T&A Mobile Phones S.A. de C.V. Limited")	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	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 Direct	Indirect	Principal activities
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 any 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.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Share of net assets	**3,934**	5,340	**–**	–
	3,934	5,340	**–**	–

Particular of a jointly controlled entity is as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activities
Huizhou Cellutel Communication Limited	One ordinary share of RMB1 each	The PRC	50%	Sale of mobile phones

* Not audited by Ernst & Young Hong Kong or any 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:

	2008 HK$'000	2007 HK$'000
Assets	**8,319**	10,708
Liabilities	**(451)**	(27)
Revenue	**4,271**	–
Loss	**(2,798)**	–

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008	2007
	HK$'000	HK$'000
Unlisted equity investments, at cost	**20,244**	20,207

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

The unlisted equity investments are stated at cost less any impairment losses as the fair value cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

23. INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**153,787**	255,103
Work in progress	**1,258**	4,797
Finished goods	**131,584**	261,147
	286,629	521,047
Provision against inventory obsolescence and net realisable value	**(56,631)**	(59,552)
	229,998	461,495

24. TRADE RECEIVABLES

	Group 2008 HK$'000	Group 2007 HK$'000
Trade receivables	**859,545**	1,022,774
Impairment	**(22,726)**	(7,367)
	836,819	1,015,407

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

	Group 2008 HK$'000	Group 2007 HK$'000
Within 3 months	**643,608**	798,624
From 4 to 12 months	**195,604**	213,981
Over 12 months	**20,333**	10,169
	859,545	1,022,774
Impairment loss of trade receivables	**(22,726)**	(7,367)
	836,819	1,015,407

24. TRADE RECEIVABLES (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**7,367**	17,938
Charge for the year	**17,658**	4,723
Amount written off as uncollectible	**(2,299)**	(15,294)
	22,726	7,367

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$22,726,000 (2007: HK$7,367,000) with a carrying amount of HK$39,225,000 (2007: HK$12,624,000). The individually impaired trade receivables relate to customers that were in financial difficulties and a major portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**447,289**	625,698
Less than 1 month past due	**171,621**	208,995
From 1 to 3 months past due	**142,880**	105,064
From 4 to 12 months past due	**56,122**	67,868
Over 12 months past due	**2,408**	2,525
	820,320	1,010,150

24. TRADE RECEIVABLES (continued)

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.

25. FACTORED TRADE RECEIVABLES

At 31 December 2008, two subsidiaries of the Group factored trade receivables of HK$153,392,000 (2007: HK$199,652,000) to banks on a with recourse basis for cash. As the subsidiaries 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 dates range from 30 to 120 days. No impairment is made on the factored trade receivables.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current	**110,845**	141,875
Within 1 month	**19,135**	14,132
From 1 to 2 months	**11,107**	28,567
From 2 to 3 months	**2,480**	9,932
Over 3 months	**9,825**	5,146
	153,392	199,652

26. PLEDGED DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**663,437**	708,716	**40,292**	1,243
Pledged deposits	**1,670,499**	958,738	**–**	–
	2,333,936	1,667,454	**40,292**	1,243
Less: Pledged deposits:				
– for factored trade receivables	**(57,584)**	(178,587)	**–**	–
– for interest bearing bank borrowings	**(1,612,915)**	(780,151)	**–**	–
Cash and cash equivalents	**663,437**	708,716	**40,292**	1,243

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,566,228,000 (2007: HK$1,277,719,000). 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.

27. INTEREST BEARING BANK AND OTHER BORROWINGS

Group

	2008		2007	
	Maturity (Year)	HK$'000	Maturity (Year)	HK$'000
Current				
Finance lease payable (note 28)	2009	3,912	N/A	–
Bank borrowings				
Secured*	2009	1,749,018	2008	838,791
		1,752,930		838,791
Non-current				
Finance lease payable (note 28)	2010-2011	5,268	N/A	–
		1,758,198		838,791

* The Group's secured borrowings are bank advances and are secured by the pledge of certain of the Group's time deposits amounting to HK$1,612,915,000 (2007: HK$780,151,000) as stated in note 26.

28. FINANCE LEASE PAYABLE

The Group leases certain of its machinery for its production of mobile phones. This lease is classified as a finance lease and has a remaining lease term of three years.

As at 31 December 2008, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2008 HK$'000	Minimum lease payments 2007 HK$'000	**Present value of minimum lease payments 2008 HK$'000**	Present value of minimum lease payments 2007 HK$'000
Amounts payable:				
Within one year	**4,413**	–	**3,912**	–
In the second year	**4,413**	–	**4,177**	–
In the third year	**1,103**	–	**1,091**	–
Total minimum finance lease payments	**9,929**	–	**9,180**	–
Future finance charges	**(749)**	–		
Total net finance lease payable	**9,180**	–		
Portion classified as current liability (note 27)	**(3,912)**	–		
Non-current portion (note 27)	**5,268**	–		

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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 6 months	**377,280**	1,050,623	**354**	417
From 7 to 12 months	**211,484**	1,251	**–**	–
More than 1 year	**1,890**	502	**–**	–
	590,654	1,052,376	**354**	417

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

No trade and notes payables are secured by the pledged deposits.

30. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2008		2007	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Forward currency contracts – EUR forward	**–**	**4,086**	–	9,495
Forward currency contracts – EUR put option	**4,199**	**–**	–	–
Forward currency contracts – RMB deliverable forward & non-deliverable forward contracts	**139,603**	**62,388**	–	–
Forward currency contracts – RMB non-deliverable forward contracts	**–**	**2,423**	–	–
	143,802	**68,897**	–	9,495

30. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The carrying amounts of forward currency contracts are the same as their fair values. The above EUR forward contracts and EUR put option contracts involving derivative financial instruments are with international banks with A and B credit ratings in Moody's. The RMB deliverable forward contracts involving derivative financial instruments are mainly with the biggest national banks in the PRC. The RMB non-deliverable forward contracts are mainly with international banks with A and B credit ratings in Moody's.

Forward currency contracts – cash flow hedges

At 31 December 2008, the Group held forward currency contracts designated as hedges in respect of expected future sales to customers in Europe for which the Group has firm commitments.

The terms of the EUR forward currency contracts and RMB non-deliverable forward contracts have been negotiated to match the terms of the commitments. The cash flow hedges relating to expected future sales in year 2009 were assessed to be highly effective and a net loss of HK$4,086,000 and HK$2,423,000 arising from fair value loss were included in the hedging reserve respectively.

For non-hedging currency derivatives

In addition, the Group has entered into various forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$77,708,000 were charged to the income statement during the year (2007: (HK$9,495,000)).

31. PROVISION FOR WARRANTIES

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

	Group	
	2008	2007
	HK$'000	HK$'000
At beginning of year	**71,358**	80,995
Provision	**65,116**	130,221
Utilised	**(76,015)**	(143,715)
Exchange difference	**(1,053)**	3,857
At end of year	**59,406**	71,358

31. PROVISION FOR WARRANTIES (continued)

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 BONDS

On 2 April 2007 and 1 June 2007, the Company issued 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 the conditions of the Convertible Bonds. Furthermore, on 23 January 2009, as approved by the shareholders of the Company, every ten issued and unissued ordinary shares with par value HK$0.1 each in the share capital of the Company were consolidated into one ordinary share of par value HK$1.0. Accordingly, the conversion price of the Convertible Bonds was adjusted to HK$3.2 per share.

Due to several terms in the Convertible Bonds (including price reset, cash settlement option, and the functional currency of the Company is HK$ while the conversion of the Convertible Bonds is 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 components is recognised in the income statement.

32. CONVERTIBLE BONDS (continued)

Fair value of the 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 the 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 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	31 December 2008
a)	Bond price	US$867.22	US$1,149.07
b)	Exercise price	US$1,218.05	US$1,103.74
c)	Risk-free rate	3.923%	0.458%
d)	Expected life	42 months	21 months
e)	Volatility	18.894%	114.188%

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

	Parameter	1 June 2007	31 December 2008
a)	Bond price	US$861.94	US$1,149.07
b)	Exercise price	US$1,206.83	US$1,103.74
c)	Risk-free rate	4.446%	0.458%
d)	Expected life	40 months	21 months
e)	Volatility	20.906%	114.188%

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

	Parameter	2 April 2007	31 December 2008
a)	Stock price	HK$0.247	HK$0.0700
b)	Exercise price	HK$0.3275	HK$0.3200
c)	Risk-free rate	3.850%	0.418%
d)	Expected life	30 months	19 months
e)	Volatility	48.330%	70.54%

32. CONVERTIBLE BONDS (continued)

Fair value of the conversion option (continued)

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

	Parameter	1 June 2007	31 December 2008
a)	Stock price	HK$0.355	HK$0.0700
b)	Exercise price	HK$0.3275	HK$0.3200
c)	Risk-free rate	4.401%	0.418%
d)	Expected life	29 months	19 months
e)	Volatility	52.02%	70.54%

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

	Parameter	2 April 2007	31 December 2008
a)	Bond price	US$867.22	US$1,149.07
b)	Exercise price	US$1,170	US$1,170
c)	Risk-free rate	3.888%	0.32%
d)	Expected life	36 months	15 months
e)	Volatility	19.551%	189.795%

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

	Parameter	1 June 2007	31 December 2008
a)	Bond price	US$861.94	US$1,149.07
b)	Exercise price	US$1,170	US$1,170
c)	Risk-free rate	4.423%	0.32%
d)	Expected life	34 months	15 months
e)	Volatility	20.906%	189.795%

32. CONVERTIBLE BONDS (continued)

Fair value of the conversion option (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 1 January 2008 to 31 December 2008 resulted in a fair value gain of approximately HK$68 million, which has been recorded as "Changes in fair value of derivative component of Convertible Bonds" in the income statement for the year ended 31 December 2008.

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

	Liability component HK$'000	Derivative component HK$'000	Total HK$'000
As at 1 January 2008	205,978	162,860	368,838
Change in fair value of the derivative component of convertible bonds	–	(68,078)	(68,078)
Interest expense	39,959	–	39,959
Amortised issue expense of convertible bonds	2,566	–	2,566
Buyback during the year	(139,778)	(61,449)	(201,227)
As at 31 December 2008	108,725	33,333	142,058

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

The Company accepted the offers from certain bondholders and partially bought back Convertible Bonds during the year. On 25 September 2008, the Company bought back Convertible Bonds with a principal amount of US$13,000,000 at a redemption price of US$11,295,000. US$6,960,000 of the redemption price was paid on 1 October 2008 whilst US$4,335,000 of the redemption price was paid on 2 October 2008. On 10 October 2008, the Company bought back Convertible Bonds with a principal amount of US$3,500,000 at a redemption price of US$2,984,000. The payment was made on 15 October 2008. On 29 December 2008, the Company bought back Convertible Bonds with a principal amount of US$6,000,000 at a redemption price of US$4,155,000. The payment was made on 2 January 2009.

The buybacks were financed by internal funding and the directors consider that the partial buybacks of Convertible Bonds provide good opportunities for the Company and its subsidiaries to reduce its liabilities and interest payment obligations and to improve its financial position.

As a result of the buybacks and the conversion, the outstanding principal amount of the Convertible Bonds was US$22,000,000 as at 31 December 2008.

33. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the defined benefit scheme plan for the year ended 31 December 2008 amounted to HK$2,367,000 (2007: HK$1,691,000).

	Group	
	2008	2007
	HK$'000	HK$'000
Present value of fund obligation	**2,367**	1,691
Unrealised actuarial losses	**–**	–
Retirement indemnities	**2,367**	1,691

Movements of retirement indemnities are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Balance at beginning of year	**1,691**	496
Benefit expenses recognised in the consolidated results (note 9)	**806**	1,056
Exchange realignment	**(130)**	139
Balance at end of year	**2,367**	1,691

The Group does not have any unfunded obligations.

33. RETIREMENT INDEMNITIES (continued)

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

	Group	
	2008	2007
Discount rate	**5.30%**	5.25%
Future salary increase per annum	**5.0%**	5.0%

34. LONG SERVICE MEDALS

TCT Mobile Europe 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 TCT Mobile Europe SAS to the balance sheet date.

35. DEFERRED TAX ASSETS

Group

	Tax losses	Advertising and promotion accruals	Product warranty	Bad debt provision	Provision for obsolete stock	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008	32,067	2,370	–	–	–	34,437
Exchange realignment	30	–	–	–	–	30
Deferred tax charge/(credited) to the income statement during the year (note 12)	(10,660)	(99)	1,642	857	582	(7,678)
Gross deferred tax assets recognised in the consolidated balance sheet at 31 December 2008	21,437	2,271	1,642	857	582	26,789

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

35. DEFERRED TAX ASSETS (continued)

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$1,320,086,000 (will expire in 2010) which are related to the subsidiaries in the PRC and HK$1,251,554,000 (will be infinite expiration) which are related to a subsidiary in France as at 31 December 2008 (2007: HK$1,708,332,000 which are related to the subsidiaries in the PRC and HK$1,327,084,000 which are related to a subsidiary in France) carried forward for offsetting against future taxable profits of the companies in which the losses arose.

	Tax losses HK$'000	Advertising and promotion accruals HK$'000	Total 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

36. SHARE CAPITAL

	Number of shares	Issued share capital HK$'000	Share premium HK$'000
Authorised:			
Ordinary shares of HK$0.1 each			
at 1 January 2007	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 and 31 December 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 (note 37)	26,351,999	2,635	5,952
Shares repurchased	(62,748,000)	(6,274)	(13,732)
At 31 December 2008	7,150,498,709	715,050	1,576,958

36. SHARE CAPITAL (continued)

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

- 26,351,999 share options were exercised during 2008 at subscription prices 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 of HK$5,805,000.

- During the year ended 31 December 2008, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of HK$6,274,000. The total consideration (excluding transaction cost) is HK$19,848,000. The premium of HK$13,574,000 paid on the repurchase share and repurchase expenses of HK$158,000 were charged against share premium.

Details of the repurchase of shares are summarised as follows:

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

37. SHARE OPTION SCHEME

The Company has adopted a 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.

37. 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 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008	Date of grant	Exercise period (both dates inclusive) (notes 1, 2, 3 and 4)	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
	26,512,049	–	–	–	26,512,049						
Dr. 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
	47,260,454	–	–	–	47,260,454						
Mr. YU Enjun	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
	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	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
	6,447,483	–	–	–	6,447,483						
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
	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
	4,189,546	–	–	–	4,189,546						

37. 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 2008	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2008	Date of grant	Exercise period (both dates inclusive) (notes 1, 2, 3 and 4)	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. 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. WONG Toe Yeung	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
	26,512,049	–	–	–	26,512,049						
Sub-total	139,521,036	–	–	–	139,521,036						
Employees	25,570,923	–	–	(4,379,994)	21,190,929	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	84,038,000	–	(13,778,000)	(4,105,000)	66,155,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	147,596,666	–	(11,789,999)	(12,138,667)	123,668,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	274,447,072	–	–	(43,945,534)	230,501,538	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
Sub-total	531,652,661	–	(25,567,999)	(64,569,195)	441,515,467						
Those who have contributed or may contribute to the Group	40,643,854	–	–	(5,023,641)	35,620,213	31 May 2005	1 March 2006 to 30 May 2010	0.3804	0.41	N/A	N/A
	20,188,000	–	(784,000)	(2,640,000)	16,764,000	16 January 2006	17 July 2006 to 15 January 2011	0.2108	0.22	N/A	N/A
	11,250,000	–	–	–	11,250,000	30 June 2006	1 April 2007 to 30 June 2011	0.232	0.228	N/A	N/A
	64,126,800	–	–	(2,966,850)	61,159,950	5 July 2007	5 April 2008 to 4 July 2012	0.31	0.31	N/A	N/A
Sub-Total	136,208,654	–	(784,000)	(10,630,491)	124,794,163						
Total	807,382,351	–	(26,351,999)	(75,199,686)	705,830,666						

37. SHARE OPTION SCHEME (continued)

Notes:

1. 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 these 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.

2. 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 these 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.

3. 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 these 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.

4. 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 these 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.

5. During the period under review, there were no share options granted.

   The following assumptions were used to derive the fair value of the options granted in the previous years, 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	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

37. 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 October 2006 to 15 July 2009	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	1% per annum	1% per annum	1% per annum	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	1% per annum	1% per annum	1% per annum	1% per annum	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		

37. SHARE OPTION SCHEME (continued)

Notes: (continued)

Options granted on 5 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 Limited 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 5 July 2007.

38. SHARE AWARD SCHEME

Share Award Scheme A

On 3 July 2007, the board of the directors approved a share award scheme ("Share Award Scheme A") under which shares may be awarded to employees of a subsidiary of the Group in accordance with the terms and conditions of the Share Award Scheme A. One-third of these 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 employed by the Group.

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

On 24 September 2007, 72,500,000 Awarded Shares were awarded to a number of employees which would be transferred to the employees at nil consideration upon vesting between 3 April 2008 and 3 October 2009. The trustee purchased 72,500,000 Awarded Shares at a total cost (including related transaction costs) of approximately HK$21,092,000 during the period from 27 September 2007 to 31 December 2008.

38. SHARE AWARD SCHEME (continued)

Share Award Scheme B

On 11 March 2008, the board of the directors resolved to adopt another restricted share award scheme B ("Share Award Scheme B") as an incentive to retain and encourage the employees for the continual operation and development of the Group, 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 Share Award Scheme B. The board of the 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. On 24 December 2008, the board of the directors approved 27,100,000 Awarded Shares to be granted under the Share Award Scheme B, and the vesting date is 25 December 2009.

During 2008, the trustee purchased 105,898,000 shares at a total cost (including related transaction costs) of approximately HK$33,469,000.

During the year, the trustee transferred 23,159,905 shares to the awardees upon vesting of certain Awarded Shares. The total cost of the related vested shares was HK$6,738,000.

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

For Share Award Scheme A:

	2008 Number of Awarded Shares
Outstanding at 1 January	72,500,000
Lapsed	(10,326,763)
Vested	(23,159,905)
Outstanding at 31 December	39,013,332

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

	31 December 2008	
	Remaining vesting period (both dates inclusive)	**Number of Awarded Shares**
Fair value HK$0.237 per share	1 January 2009 to 3 October 2009	39,013,332

38. SHARE AWARD SCHEME (continued)

For Share Award Scheme B:

	2008 Number of Awarded Shares
Outstanding at 1 January	–
Awarded at 24 December	27,100,000
Outstanding at 31 December	27,100,000

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

	31 December 2008 Remaining vesting period (both dates inclusive)	Number of Awarded Shares
Fair value HK$0.070 per share	1 January 2009 to 25 December 2009	27,100,000

39. 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 63 and 64 of the financial statements.

The Group's capital reserve arose mainly from a 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 thereof.

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.

39. RESERVES (continued)

(b) Company

	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Award share reserve HK$'000	Share option reserve 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)

39. RESERVES (continued)

(b) Company (continued)

	Contributed surplus HK$'000	Share premium account HK$'000	Shares held for Share Award Scheme HK$'000	Award share reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000
Balance at 1 January 2008	669,907	1,584,738	(9,570)	3,766	42,718	(2,327,715)	–	(36,156)
Issue of shares and exercise of share options	–	5,952	–	–	(2,782)	–	–	3,170
Shares repurchased	–	(13,732)	–	–	–	–	–	(13,732)
Equity-settled share option arrangements	–	–	–	–	22,480	–	–	22,480
Shares purchased for Share Award Scheme	–	–	(44,991)	8,331	–	–	–	(36,660)
Reclassification of vested shares	–	–	6,738	(5,489)	–	(1,249)	–	–
Exchange realignment and total loss and expense for the year recognised directly in equity	–	–	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	281,044	–	281,044
Total income and expense for the year	–	–	–	–	–	281,044	–	281,044
At 31 December 2008	669,907	1,576,958	(47,823)	6,608	62,416	(2,047,920)	–	220,146

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 thereof.

40. BUSINESS COMBINATION

On 3 July 2007, the Group completed the acquisition of a 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$'000 (Restated)	**Previous carrying amount** HK$'000 (Restated)
Property, plant and equipment (note 16)	41,162	41,162
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	279,944	279,944
Goodwill on acquisition (note 19)	138,071	138,071
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

40. 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 2007, the revenue from continuing operations of the Group and the loss of the Group for 2007 would have been HK$4,972,519,000 and HK$28,013,000, respectively.

41. CONTINGENT LIABILITIES

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

42. 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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**18,739**	9,440	**–**	–
In the second to fifth years, inclusive	**20,421**	15,456	**–**	–
Over five years	**–**	–	**–**	–
	39,160	24,896	**–**	–

43. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had no significant capital commitments contracted, but not provided for (2007: Nil).

44. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2008 HK$'000	2007 HK$'000 (Restated)
Transactions with the ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	**5,664**	4,350
Interest expenses	**2,019**	1,872
Interest on convertible notes	**–**	3,453
Short-term loan obtained	**16,963,419**	4,848,431
Purchase of raw materials*	**415,100**	706,716
Rental charges	**8**	–
Transactions with fellow subsidiaries		
Purchases of raw materials*	**90,868**	99,485
Short-term loan obtained	**393,400**	174,743
Interest expenses	**4,091**	4,823
Rental income	**404**	336
Rental charges	**5,028**	2,161
Provision of TD-SCDMA technology	**899**	2,056
Supply of raw materials	**179,655**	40,189
Purchase of products	**210,491**	25,029
Purchase of fixed assets	**28,051**	–
Transactions with an associate or its subsidiaries		
Technology and software fees	**–**	17,261
Recharge expenses	**–**	18,100
Sales of items of property, plant and equipment	**–**	3,896
Transactions with a jointly controlled entity		
Sales of products	**5,998**	–
Interest expenses	**17**	–

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

44. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

Particulars of outstanding balances with related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

	Due from related companies		Due to related companies	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ultimate controlling shareholder	**11,357**	11,215	**6,585**	38,368
Fellow subsidiaries	**6,019**	24,415	**137,607**	129,474
Jointly controlled entity	**–**	–	**414**	–
	17,376	35,630	**144,606**	167,842

Certain balances due to TCL Finance Company, a fellow subsidiary and TCL Corporation, the ultimate controlling shareholder bear interest at floating rates. The other balances with related companies are mainly trading balances, and are unsecured, interest-free and have no fixed terms of repayment.

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

	Year ended 31 December	
	2008	2007
	HK$'000	HK$'000
		(Restated)
TCL Corporation*	**11,729**	15,002
TTE Technology Inc.	**62,580**	21,671
Manufacturas Avanzadas. S.A. de C.V.	**1,726**	–
TCL Digital Technology (Shenzhen) Co. Ltd.	**297**	–
Huizhou Cellutel Communication Limited	**5,145**	–

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

44. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2008 HK$'000	2007 HK$'000
Short-term employee benefits	**18,981**	12,933
Post-employment benefits	**121**	60
Equity-settled share option expense	**6,472**	5,998
Total compensation paid to key management personnel	**25,574**	18,991

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

45. FINANCIAL INSTRUMENTS BY CATEGORY

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

2008

Financial assets

	Group			
	Financial assets at fair value through profit or loss HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments (note 22)	–	–	20,244	20,244
Trade receivables (note 24)	–	836,819	–	836,819
Factored trade receivables	–	153,392	–	153,392
Notes receivable	–	16,958	–	16,958
Financial assets included in prepayments, deposits and other receivables	–	149,161	–	149,161
Due from related companies	–	17,376	–	17,376
Derivative financial instruments (note 30)	143,802	–	–	143,802
Pledged deposits (note 26)	–	1,670,499	–	1,670,499
Cash and cash equivalents (note 26)	–	663,437	–	663,437
	143,802	3,507,642	20,244	3,671,688

45. 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):

2008

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)	–	590,654	590,654
Other payables and accruals	–	207,961	207,961
Convertible bonds	108,725	33,333	142,058
Interest-bearing bank and other borrowings (note 27)	–	1,758,198	1,758,198
Bank advances on factored trade receivables	–	153,392	153,392
Due to related companies	–	144,606	144,606
Derivative financial instruments (note 30)	68,897	–	68,897
	177,622	2,888,144	3,065,766

2007

Financial assets

	Group		
	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	HK$'000	HK$'000
Available-for-sale investments (note 22)	–	20,207	20,207
Trade receivables (note 24)	1,015,407	–	1,015,407
Factored trade receivables	199,652	–	199,652
Notes receivable	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 26)	958,738	–	958,738
Cash and cash equivalents (note 26)	708,716	–	708,716
	3,115,398	20,207	3,135,605

45. 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):

2007

Financial liabilities

	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total 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 27)	–	838,791	838,791
Bank advances on factored trade receivables	–	199,652	199,652
Due to the related companies	–	167,842	167,842
Derivative financial instruments (note 30)	9,495	–	9,495
	172,355	2,679,449	2,851,804

Financial assets

	Company			
	2008		2007	
	Loans and receivables HK$'000	**Total HK$'000**	Loans and receivables HK$'000	Total HK$'000
Due from subsidiaries (note 20)	**1,064,803**	**1,064,803**	1,052,423	1,052,423
Cash and cash equivalents (note 26)	**40,292**	**40,292**	1,243	1,243
	1,105,095	**1,105,095**	1,053,666	1,053,666

45. 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 liabilities

	2008			2007		
	Financial liabilities at fair value through profit or loss HK$'000	**Financial liabilities at amortised cost HK$'000**	**Total HK$'000**	Financial liabilities at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Trade payables	**–**	**354**	**354**	–	417	417
Other payables and accruals	**–**	**35,914**	**35,914**	–	2,854	2,854
Convertible bonds	**33,333**	**108,725**	**142,058**	162,860	205,978	368,838
	33,333	**144,993**	**178,326**	162,860	209,249	372,109

46. 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, liquidity risk and equity price 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 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.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2008			
Hong Kong dollar	+25bp	(707)	–
Hong Kong dollar	–25bp	719	–
2007			
Hong Kong dollar	+100bp	(7,955)	–
Hong Kong dollar	–100bp	7,708	–

* Excluding retained earnings.

Foreign currency risk

The Group has transactional currency exposures. These 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 hedging derivatives to match the terms of the hedged item to maximise hedge effectiveness.

46 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
2008			
If Hong Kong dollar weakens against Euro	–5%	6,172	(6,545)
If Hong Kong dollar strengthens against Euro	5%	(6,172)	6,545
2007			
If Hong Kong dollar weakens against Euro	–5%	(1,876)	–
If Hong Kong dollar strengthens against Euro	5%	1,876	–

* Excluding retained earnings.

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 receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Besides, the Group also utilises factoring facilities and credit insurance to minimise credit risk. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

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

46 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. The maturity profile of the Group's borrowings are disclosed in note 27, note 28 and note 32 to the financial statements.

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 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 32) 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
2008			
Volatility	+10%	(1,036)	–
Volatility	–10%	709	–
2007			
Volatility	+10%	(8,167)	–
Volatility	–10%	5,141	–

46 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
2008			
Equity price	+10%	(440)	–
Equity price	–10%	363	–
2007			
Equity price	+10%	(30,799)	–
Equity price	–10%	32,962	–

* Excluding retained earnings.

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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

46 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 related company, trade, bills and other payables, accruals, less cash and cash equivalents and pledged deposits. Capital includes convertible bonds and equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008	2007
	HK$'000	HK$'000
		(Restated)
Interest-bearing bank and other borrowings	**1,758,198**	838,791
Bank advances on factored trade receivables	**153,392**	199,652
Trade and notes payables	**590,654**	1,052,376
Other payables and accruals	**557,640**	551,654
Due to related companies	**144,606**	167,842
Less: Cash and cash equivalents	**(663,437)**	(708,716)
Pledged deposits	**(1,670,499)**	(958,738)
Net debt	**870,554**	1,142,861
Convertible bonds, the liability and derivative components	**142,058**	368,838
Equity attributable to equity holders	**1,064,803**	1,052,423
Adjusted capital	**1,206,861**	1,421,261
Capital and net debt	**2,077,415**	2,564,122
Gearing ratio	**42%**	45%

47. POST BALANCE SHEET EVENT

Pursuant to the share consolidation effective on 23 January 2009, every 10 issued and unissued shares of HK$0.10 each have been consolidated into one Consolidated Share of HK$1.00 each and authorised ordinary share capital of the Company has become HK$2,000,000,000 divided into 2,000,000,000 Consolidated Shares, of which 715,049,870 Consolidated Shares were in issue.

Upon the Share Consolidation becoming effective, the Consolidated Shares rank pari passu in all respects with each other in accordance with the articles of association of the Company.

As a result of the Share Consolidation, the conversion price of the Convertible Bonds was adjusted from HK$0.32 per share to HK$3.2 per Share with effect from 23 January 2009.

In accordance with the rules of the share option scheme adopted by the Group and the supplementary guidance issued by the Stock Exchange, adjustments was made to the exercise price and the number of shares falling to be allotted and issued in respect of the share options, and took effect on 23 January 2009.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2009.

FIVE YEAR FINANCIAL SUMMARY

31 December 2008

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**4,538,281**	4,971,081	5,501,627	5,663,696	7,309,738
Cost of sales	**(3,726,663)**	(4,123,975)	(4,709,736)	(5,575,958)	(6,281,442)
Gross profit	**811,618**	847,106	791,891	87,738	1,028,296
Other income and gains	**273,391**	70,722	142,981	187,551	203,684
Research and development costs	**(262,924)**	(173,343)	(177,168)	(346,795)	(215,057)
Selling and distribution costs	**(389,388)**	(336,954)	(371,228)	(877,340)	(789,234)
Administrative expenses	**(393,191)**	(330,643)	(300,420)	(894,264)	(443,409)
Other operating expenses	**(1,588)**	(1,510)	(15,308)	(7,469)	(68,233)
Finance costs excluding interest on convertible bonds	**(28,393)**	(16,185)	(29,118)	(20,867)	(20,252)
Share of losses of an associate	**–**	(16,943)	(9,498)	–	–
Share of losses of a jointly controlled entity	**(1,399)**	–	–	–	–
	8,126	42,250	32,132	(1,871,446)	(304,205)
Changes in fair value of the derivative component of convertible bonds	**68,078**	(10,041)	–	–	–
Interest on convertible bonds	**(39,959)**	(22,747)	–	–	–
Profit/(loss) before tax	**36,245**	9,462	32,132	(1,871,446)	(304,205)
Tax	**(7,754)**	23,601	(16,709)	(24,630)	2,998
Profit/(loss) for the year	**28,491**	33,063	15,423	(1,896,076)	(301,207)
ATTRIBUTABLE TO:					
Equity holders of the parent	**28,491**	33,063	15,423	(1,608,204)	(184,897)
Minority interests	**–**	–	–	(287,872)	(116,310)
	28,491	33,063	15,423	(1,896,076)	(301,207)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**4,543,491**	4,316,821	3,670,357	4,083,768	5,482,410
Total liabilities	**(3,478,688)**	(3,264,398)	(2,998,370)	(4,042,823)	(3,617,486)
Minority interests	**–**	–	–	–	(341,956)
	1,064,803	1,052,423	671,987	40,945	1,522,968

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Room 1502,
Tower 6,
China Hong Kong City,
33 Canton Road,
Tsimshatsui,
Kowloon, Hong Kong

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