



**TCL 多媒體科技控股有限公司**

**TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED**

Stock code: 1070

# GEAR UP TO MOVE FORWARD

INTERIM REPORT 2006

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**MAKE HEADWAY**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Chairman

Mr. Li Dong Sheng

#### Executive Directors

Ms. Lu Zhong Li  
Mr. Wang Kang Ping (appointed on 8 June 2006)  
Mr. Shi Wanwen (appointed on 30 June 2006)  
Mr. Zhao Zhong Yao (retired on 8 June 2006)  
Mr. Hu Qiu Sheng (resigned on 30 June 2006)  
Mr. Yan Yong, Vincent (resigned on 20 July 2006)

#### Non-Executive Directors

Mr. Albert Thomas da Rosa, Junior  
Mr. Alastair Kenneth Ruskin Campbell  
(redesignated as non-executive director  
on 20 July 2006)  
Mr. Didier Trutt  
(redesignated as non-executive director  
on 20 July 2006)

#### Independent Non-Executive Directors

Mr. Tang Guliang  
Mr. Wang Bing  
Mr. Hon Fong Ming, Perry (retired on 8 June 2006)

### COMPANY SECRETARY

Ms. Pang Siu Yin, Solicitor, Hong Kong

### AUDITOR

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

### LEGAL ADVISOR

Cheung, Tong & Rosa  
Rooms 1621-33, 16/F  
Sun Hung Kai Centre  
30 Harbour Road  
Hong Kong

### PRINCIPAL REGISTRAR

Butterfield Bank (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands

### BRANCH REGISTRAR

Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

### PRINCIPAL OFFICE

13/F, TCL Tower  
8 Tai Chung Road  
Tsuen Wan  
New Territories  
Hong Kong

### REGISTERED OFFICE

Ugland House  
South Church Street  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### INVESTOR AND MEDIA RELATIONS

iPR Ogilvy Limited  
Units 2608-10, 26/F, The Center  
99 Queen's Road Central, Hong Kong

## INTERIM RESULTS

The Board of Directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2006 with comparative figures for the previous period as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	<b>6 months ended 30 June 2006 (unaudited) HK\$'000</b>	6 months ended 30 June 2005 (unaudited) HK\$'000
TURNOVER	2	<b>15,706,389</b>	15,615,098
Cost of sales		<b>(13,336,495)</b>	(13,026,152)
Gross profit		<b>2,369,894</b>	2,588,946
Other revenue and gains		<b>109,369</b>	90,854
Selling and distribution costs		<b>(2,002,623)</b>	(1,885,021)
Administrative expenses		<b>(539,070)</b>	(555,276)
Research and development costs		<b>(201,685)</b>	(228,211)
Other operating expenses		<b>(239,811)</b>	(35,926)
LOSS FROM OPERATING ACTIVITIES	2	<b>(503,926)</b>	(24,634)
Gain on disposal of an equity investment		<b>3,179</b>	–
Fair value losses of equity investments at fair value through profit or loss		<b>(37,256)</b>	(11,336)
Impairment of assets and write-down of inventories to net realizable value	4	<b>(865,134)</b>	–
Finance costs	5	<b>(127,279)</b>	(67,082)
Share of profits and losses of jointly-controlled entities		<b>1,213</b>	1,623
LOSS BEFORE TAX		<b>(1,529,203)</b>	(101,429)
Tax	7	<b>(67,548)</b>	(56,262)
LOSS FOR THE PERIOD		<b>(1,596,751)</b>	(157,691)
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>(1,599,589)</b>	(95,627)
Minority interests		<b>2,838</b>	(62,064)
		<b>(1,596,751)</b>	(157,691)
INTERIM DIVIDEND	8	<b>Nil</b>	Nil
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<b>HK(40.98) cents</b>	HK(3.47) cents
Diluted		<b>N/A</b>	HK(3.51) cents

## INTERIM RESULTS

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>2,352,222</b>	2,722,422
Prepaid land lease payments		<b>60,781</b>	62,623
Goodwill		<b>269,777</b>	206,639
Other intangible assets		<b>89,930</b>	91,993
Interests in jointly-controlled entities		<b>157,258</b>	157,088
Available-for-sale equity investments		<b>12,183</b>	14,773
Long term receivables		<b>210,771</b>	358,774
Prepaid royalty		<b>573,748</b>	563,674
Deferred tax assets		<b>29,754</b>	27,690
<b>Total non-current assets</b>		<b>3,756,424</b>	4,205,676
<b>CURRENT ASSETS</b>			
Inventories		<b>3,424,622</b>	4,599,339
Trade and bills receivables	10	<b>4,850,520</b>	6,036,973
Other receivables		<b>1,141,582</b>	1,270,343
Tax recoverable		<b>27,421</b>	39,089
Equity investments at fair value through profit or loss		<b>397</b>	47,594
Pledged deposits		<b>48,683</b>	90,165
Cash and bank balances		<b>1,722,131</b>	1,861,957
<b>Total current assets</b>		<b>11,215,356</b>	13,945,460
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	<b>5,521,897</b>	6,867,142
Tax payable		<b>76,762</b>	145,985
Other payables and accruals		<b>1,699,301</b>	1,916,671
Provisions		<b>280,367</b>	197,402
Interest-bearing bank and other borrowings	12	<b>3,462,155</b>	3,481,045
Due to a shareholder/minority shareholder	13	<b>492,346</b>	536,364
Due to the ultimate holding company	14	<b>712,882</b>	717,863
<b>Total current liabilities</b>		<b>12,245,710</b>	13,862,472
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>(1,030,354)</b>	82,988
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,726,070</b>	4,288,664

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)**

		<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>22,785</b>	24,057
Pensions and other post-employment benefits		<b>182,025</b>	165,615
<b>Total non-current liabilities</b>		<b>204,810</b>	189,672
<b>Net assets</b>		<b>2,521,260</b>	4,098,992
<b>EQUITY</b>			
Equity attributable to equity holders of the parent:			
Issued capital	15	<b>390,295</b>	390,295
Reserves		<b>2,018,417</b>	3,600,221
<b>Minority interests</b>		<b>2,408,712</b>	3,990,516
		<b>112,548</b>	108,476
<b>Total equity</b>		<b>2,521,260</b>	4,098,992

## INTERIM RESULTS

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital	Share premium account	Share option reserve	Capital reserve	Reserve funds	Exchange fluctuation reserve	Retained profits/ (Accumulated deficits)	Proposed final dividend	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
AT 1 JANUARY 2005	275,796	37,730	8,457	59,099	487,712	99,399	2,451,919	110,346	1,422,082	4,952,540
Issue of shares upon exercise of share options	81	723	-	-	-	-	-	-	-	804
Equity-settled share option arrangements	-	-	5,662	-	-	-	-	-	-	5,662
Exchange realignment	-	-	-	-	-	(73,369)	-	-	(36,156)	(109,525)
Loss for the period	-	-	-	-	-	-	(95,627)	-	(62,064)	(157,691)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(18,803)	(18,803)
AT 30 JUNE 2005	275,877	38,453	14,119	59,099	487,712	26,030	2,356,292	110,346	1,305,059	4,672,987
AT 1 JANUARY 2006	390,295	1,560,215	43,475	59,099	568,786	65,466	1,303,180	-	108,476	4,098,992
Equity-settled share option arrangements	-	-	10,939	-	-	-	-	-	-	10,939
Exchange realignment	-	-	-	-	-	6,846	-	-	1,234	8,080
Loss for the period	-	-	-	-	-	-	(1,599,589)	-	2,838	(1,596,751)
Transfer from retained profits	-	-	-	-	37,041	-	(37,041)	-	-	-
AT 30 JUNE 2006	390,295	1,560,215	54,414	59,099	605,827	72,312	(333,450)	-	112,548	2,521,260



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>48,941</b>	297,536
Net cash inflow/(outflow) from investing activities	<b>37,832</b>	(464,368)
Net cash outflow from financing activities	<b>(104,930)</b>	(58,461)
<b>Net decrease in cash and cash equivalents</b>	<b>(18,157)</b>	(225,293)
Cash and cash equivalents at beginning of period	<b>1,720,490</b>	1,833,272
Effect of foreign exchange rate changes, net	<b>(57,696)</b>	45,596
<b>Cash and cash equivalents at end of period</b>	<b>1,644,637</b>	1,653,575
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	<b>1,722,131</b>	1,653,575
Bank overdrafts	<b>(77,494)</b>	–
	<b>1,644,637</b>	1,653,575

## INTERIM RESULTS

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of preparation**

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

*Significant accounting policies*

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include HKASs and Interpretations, that affect the Group and are adopted the first time for the current period's financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited interim condensed consolidated financial statements.

## 2. Segment information

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activities for the six months ended 30 June 2006 is as follows:

	Turnover		Profit/(loss) from operating activities	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:				
Television	<b>13,195,079</b>	13,444,365	<b>(494,484)</b>	(31,051)
Other audio-visual products	<b>1,003,082</b>	936,243	<b>38,122</b>	23,038
Others	<b>301,432</b>	263,175	<b>(382)</b>	(13,464)
Discontinued operation:				
Computers	<b>1,206,796</b>	971,315	<b>503</b>	36,541
	<b>15,706,389</b>	15,615,098	<b>(456,241)</b>	15,064
Interest income			<b>10,012</b>	14,184
Corporate expenses			<b>(57,697)</b>	(53,882)
			<b>(503,926)</b>	(24,634)

## 3. Discontinued operation

On 21 June 2006, the Company and T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a controlling shareholder of the Company, entered into a sale and purchase agreement pursuant to which the Company agrees to sell, and to procure its relevant subsidiaries to sell, and T.C.L. Industries agrees to purchase (i) the entire issued share capital of TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology"), (ii) the entire issued share capital of TCL Education Web Limited and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. Further details of the disposal are set out in the Company's announcement dated 23 June 2006 and circular dated 17 July 2006.

On 7 August 2006, the resolution for approving the disposal was passed at the extraordinary general meeting of the Company. It is expected that the completion of the disposal will take place on 8 September 2006.

## INTERIM RESULTS

**4. Impairment of assets and write-down of inventories to net realizable value**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Impairment of:		
Property, plant and equipment	<b>225,000</b>	–
Long term receivables		
– Angers factory assets receivable	<b>79,000</b>	–
– Trademark fee reinvestment	<b>43,775</b>	–
Other receivables		
– Trademark fee reinvestment (current portion)	<b>18,359</b>	–
	<b>366,134</b>	–
Write-down of inventories to net realizable value	<b>499,000</b>	–
Total	<b>865,134</b>	–

In view of the deteriorating financial performance in Europe and the uncertainty of the effect of reorganization measures taken by the European operations, the Group performed a critical assessment of its investment in Europe and estimated the recoverable amounts of certain European assets.

Under the circumstances that the existing business model in Europe may be changed significantly, the estimated recoverable amount of (a) part of the Angers factory assets to be transferred from Thomson S.A. ("Thomson") within five years from 30 July 2004 (under the Agreement relating to Thomson Television Angers dated 30 July 2004) and (b) the trademark fee reinvestment receivable by the Group from Thomson during the period from July 2006 to July 2009 for general brand awareness advertising (pursuant to the Thomson Trademark License Agreement dated 30 July 2004), will be lower than their respective carrying amounts. Moreover, the value in use of certain property, plant and equipment in Europe for the next few years is expected to be lower than their carrying amounts due to lower utilization rate of production capacity based on latest forecast. Having taken the current changes in market price into consideration, certain inventories of the European business are written down to their net realizable values.

## 5. Finance costs

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	<b>97,767</b>	40,485
Other loan wholly repayable within five years	<b>5,512</b>	–
Convertible notes	<b>–</b>	3,840
Loan from a shareholder/minority shareholder	<b>13,417</b>	10,109
Loan from the ultimate holding company	<b>10,583</b>	12,648
	<b>127,279</b>	67,082

## 6. Depreciation and amortization

During the period, depreciation of HK\$208,019,000 (2005: HK\$225,263,000) was charged to the income statement in respect of the Group's property, plant and equipment; and amortization of HK\$3,587,000 (2005: nil) and HK\$2,739,000 (2005: HK\$2,954,000) were charged to the income statement in respect of the Group's other intangible assets and prepaid land lease payments, respectively.

## 7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	<i>HK\$'000</i>
Current:		
Hong Kong	<b>5,553</b>	4,475
Elsewhere	<b>64,636</b>	60,640
Deferred	<b>(2,641)</b>	(8,853)
	<b>67,548</b>	56,262

## INTERIM RESULTS

**8. Interim dividend**

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

**9. Loss per share attributable to ordinary equity holders of the parent**

The calculation of basic loss per share and diluted loss per share are based on:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in basic loss per share calculation	<b>(1,599,589)</b>	(95,627)
Effect of dilutive potential ordinary shares: Adjustment to minority interest upon exercise of the Exchange Option <sup>@</sup>	-	(41,178)
Loss for the purposes of diluted loss per share	<b>(1,599,589)</b>	(136,805)
	<b>Number of shares</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in basic loss per share calculation	<b>3,902,951,727</b>	2,758,443,352
Weighted average number of ordinary shares: Assumed issued on deemed exercise of the Exchange Option <sup>@</sup> outstanding during the period	-	1,144,182,095
Weighted average number of ordinary shares used in diluted loss per share calculation	<b>3,902,951,727</b>	3,902,625,447

<sup>@</sup> Pursuant to an exchange option agreement dated 30 July 2004 entered into between the Company and Thomson, the Company granted an option (the "Exchange Option") to Thomson, the then minority shareholder of a subsidiary of the Company TTE Corporation ("TTE"), to exchange all of Thomson's interest in TTE for new shares issued by the Company. On 10 August 2005, Thomson exercised its Exchange Option and 1,144,182,095 new shares were issued to Thomson.

A diluted loss per share amount for the period ended 30 June 2006 has not been disclosed, as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

## 10. Trade and bills receivables

The majority of the Group's sales in PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were also made on open-account basis with credit terms of no more than 180 days. Certain customers are allowed to settle the contract sum by instalments semi-annually. During the period, the Group also entered into certain receivables purchase agreements with its banks and a factoring company. Pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks and the factoring company.

In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
Current to 90 days	<b>4,214,097</b>	5,593,526
91 days to 180 days	<b>223,888</b>	124,902
181 days to 365 days	<b>284,663</b>	247,726
Over 365 days	<b>179,550</b>	146,950
Total	<b>4,902,198</b>	6,113,104
Less: Portion classified as non-current assets	<b>(51,678)</b>	(76,131)
Current portion	<b>4,850,520</b>	6,036,973

At 30 June 2006, the Group's trade receivables of approximately HK\$1,190,346,000 (31 December 2005 : HK\$1,110,972,000) (the "Factored Receivables") were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognize the Factored Receivables in the balance sheet because, in the opinion of the directors, the Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money, as at the balance sheet date.

## INTERIM RESULTS

**10. Trade and bills receivables (continued)**

At 30 June 2006, the Group did not have any discounted trade receivables with recourse (the "Discounted Bills") (31 December 2005: approximately HK\$20,082,000).

Accordingly, the advances from the relevant banks and the factoring company of approximately HK\$851,072,000 (31 December 2005 : HK\$828,433,000) and HK\$231,887,000 (31 December 2005 : HK\$302,621,000), respectively, received by the Group as consideration for the Factored Receivables at the balance sheet date were recognized as liabilities and included in "Interest-bearing bank and other borrowings" (note 12).

**11. Trade and bills payables**

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

	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
Current to 90 days	<b>5,092,197</b>	6,547,730
91 days to 180 days	<b>194,884</b>	77,039
181 days to 365 days	<b>61,506</b>	197,155
Over 365 days	<b>173,310</b>	45,218
	<b>5,521,897</b>	6,867,142



## 12. Interest-bearing bank and other borrowings

	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
Bank overdrafts – secured	<b>77,494</b>	83,472
Bank overdrafts – unsecured	–	57,995
Bank loans – secured	<b>67,787</b>	19,382
Bank loans – unsecured, on demand	<b>1,529,806</b>	1,538,300
Bank loans – unsecured	<b>526,301</b>	328,625
Advances from banks as consideration for Factored Receivables and Discounted Bills	<b>851,072</b>	828,433
Advances from factoring company as Consideration for Factored Receivables	<b>231,887</b>	302,621
Trust receipt loans – secured	<b>8,636</b>	48,706
Trust receipt loans – unsecured	<b>169,172</b>	273,511
	<b>3,462,155</b>	3,481,045

### Notes:

- (a) The Group's overdraft facilities amounting to HK\$167,551,000 (31 December 2005 : HK\$175,443,000), of which HK\$77,494,000 (31 December 2005 : HK\$141,467,000) had been utilized as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits, inventories, and property, plant and equipment amounting to Nil (31 December 2005 : HK\$59,911,000), HK\$24,176,000 (31 December 2005 : Nil) and HK\$84,616,000 (31 December 2005 : HK\$90,090,000), respectively.
- (b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits and inventories amounting to HK\$30,398,000 (31 December 2005 : HK\$30,254,000) and HK\$24,399,000 (31 December 2005 : Nil), respectively.
- (c) As at 30 June 2006, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

## INTERIM RESULTS

**12. Interest-bearing bank and other borrowings (continued)**

*Notes: (continued)*

- (d) Except for a secured bank loan of HK\$19,597,000 and unsecured bank loans of HK\$526,302,000 (31 December 2005: secured bank loans of HK\$19,382,000, overdrafts of HK\$83,472,000 and unsecured bank loans of HK\$328,625,000), all other borrowings of the Group bear interest at floating rates.

In addition, TCL Corporation, the ultimate holding company, has guaranteed certain of the Group's bank loans up to HK\$380,105,000 (31 December 2005 : HK\$91,267,000) as at the balance sheet date.

***Breach of loan covenants***

As at 30 June 2006, in respect of certain bank loans with an aggregate carrying amount of HK\$1,529,806,000, the Group breached certain financial covenants of the banks loans. Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the loans have been classified as current liabilities in these financial statements at 30 June 2006.

**13. Due to a shareholder/minority shareholder**

The loan is due to Thomson, bears interest at 6.1% per annum (31 December 2005: 4.26% per annum), being the cost of fund of Thomson, and was secured by the Group's trade receivables with a carrying value of HK\$492,346,000 as at 30 June 2006 (31 December 2005: HK\$536,364,000). Pursuant to the Receivables Purchase and Sales Agreement entered into between TTE and Thomson dated 30 July 2004, such loan amount shall, from the first anniversary of the closing of the Combination Agreement (i.e., 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated. The Group is in the process of negotiating with Thomson with a view to rescheduling this indebtedness.

**14. Due to the ultimate holding company**

The amount is unsecured and repayable within one year, and bears interest at 3.24% per annum (31 December 2005: 2.8%).

## 15. Share capital

	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
Authorized:		
8,000,000,000 (31 December 2005 : 5,000,000,000) shares of HK\$0.10 each	<b>800,000</b>	500,000
Issued and fully paid:		
3,902,951,727 (31 December 2005 : 3,902,951,727) shares of HK\$0.10 each	<b>390,295</b>	390,295

Pursuant to the resolution passed by the Company's shareholders on 27 February 2006, the authorized share capital of the Company was increased from HK\$500,000,000 to HK\$800,000,000 by the creation of 3,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

Details of the movements in respect of the share option during the period are set out under the "share option" section on page 30.

## INTERIM RESULTS

**16. Related party transactions**

(a) The Group had the following material transactions with related parties during the period:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Jointly-controlled entities:		
Sale of raw materials	<b>449,808</b>	546,760
Sale of finished goods	<b>45,317</b>	47,854
Purchase of finished goods	<b>455,689</b>	492,117
Ultimate holding company :		
Interest expense	<b>10,583</b>	12,648
Companies controlled by ultimate holding company :		
Sales of raw materials	–	228
Sales of finished goods	<b>10,358</b>	–
Purchases of raw materials	<b>273,417</b>	179,871
Purchase of finished goods	<b>39,571</b>	31,799
Subcontracting fee expense	<b>4,647</b>	6,411
Rental income	<b>6,403</b>	–
Thomson and its affiliates:		
Purchases of raw materials	<b>122,552</b>	890,368
Purchases of finished goods	–	759,544
Agency fee and cost reimbursement expenses	–	679,994
Styling service fee expense	–	8,954
Shared service fee expense	<b>119,117</b>	112,401
Interest expense	<b>13,417</b>	10,109
Patent royalty expense	<b>7,387</b>	8,618
Reimbursement of brand advertising costs	<b>36,652</b>	8,198
Strategic sourcing fee expense	–	14,560
Trademark royalty fee	<b>17,388</b>	–
After-sales and related services fee expense	<b>22,323</b>	–
Laboratory service fee expense	<b>2,141</b>	–
Reimbursement of reorganization costs	<b>48,100</b>	–
Subcontracting fee expense	<b>29,225</b>	–
Styling service fee income	<b>2,862</b>	–
Logistics management service fee income	<b>1,924</b>	–

**16. Related party transactions (continued)**

(b) Outstanding balances with related parties

	<b>Due from related parties</b>		<b>Due to related parties</b>	
	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000	<b>30 June 2006 (unaudited) HK\$'000</b>	31 December 2005 (audited) HK\$'000
Jointly-controlled entities	<b>32,894</b>	29,645	<b>88,810</b>	119,564
The ultimate holding company and its affiliates	<b>109,285</b>	64,711	<b>961,587</b>	943,874
Thomson and its affiliates	<b>15,480</b>	41,765	<b>704,049</b>	778,523

## MANAGEMENT DISCUSSION AND ANALYSIS

### **BUSINESS REVIEW**

The Group experienced an extremely difficult period with a widened operating loss in the first half of 2006. Global TV market competition was as keen as ever and the operating environment remained tough, especially for the European market. Due to unfavourable macro market conditions and company-specific issues such as slow product rollout, the performance in the European market was far below expectation. The Group as a consequence recorded an operating loss of HK\$504 million for the first half of 2006 (as compared to an operating loss of HK\$25 million for the same period last year). However, the operating performance of other non-Europe businesses remained healthy, with the PRC, North America, Emerging Markets and Strategic OEM recording an operating profit of over HK\$325 million during the period under review.

The Group is of the view that the challenges met in Europe will continue to prevail in the coming quarters. As such, it performed a critical assessment of its investment in Europe and recognised an impairment loss of HK\$865 million with respect to certain assets of its European business arm, which significantly affected the Group's first half-yearly results. As a result, a net loss of HK\$1,600 million was reported for the six months ended 30 June 2006.

Facing tremendous challenges in respect of business operation and financial performance, the Group has implemented a series of strategies to counterbalance the negative impacts and to enhance its competitiveness in the core markets. The Group maintained its dominant position in the PRC with an increased market share despite market contraction. In North America, the Group's business performance was in line with management's expectations related to sales growth and improvement in operating results. Encouraging sales volume growth was seen in Emerging markets as well as the Strategic OEM business.

### **TV Business**

For the six months ended 30 June 2006, TV sales revenue amounted to HK\$13,195 million, representing a decrease of 1.9% as compared with that of the same period last year. This segment, being the Group's core business, took up 84% of the Group's total turnover (1H2005: 86%). During the period, a total of 10.88 million sets of TVs were sold, posting a year-on-year increase of 11%.

In line with the global industry trend, the Group continued to enhance its product mix by rolling out new high-end models. Strong focus was placed on flat panel TV, as the Group recognized the huge growth potential in the global market. In order to cater for different market needs, more than 100 models were launched during the first half of 2006, approximately half of which were high-end models (flat panel TVs and projection TVs).

According to the latest iSuppli data for the first quarter of 2006, the Group was ranked number one in the global market by volume, with 11% market share.

<b>In thousand sets</b>	<b>1H2006</b> <b>(‘000)</b>	1H2005 (‘000)	<b>Change</b>
TV Unit Sales	<b>10,880</b>	9,775	+11%
The PRC	<b>3,735</b>	4,144	-10%
Europe and North America	<b>2,700</b>	2,698	Nil
Emerging Markets and Strategic OEM	<b>4,445</b>	2,933	+52%
PC Unit Sales	<b>382</b>	331	+15%

### **The PRC Market**

According to the Ministry of Information Industry (MII), the PRC TV market recorded a year-on-year decline of 12% in the first six months of 2006, which was due to the contraction of CRT TV market. Our overall TV unit sales also saw a milder-than-market decrease of 10% to 3.74 million sets, of which TCL brand and Rowa brand TVs accounted for 3.19 million sets and 0.55 million sets respectively. Sales revenue from the PRC market amounted to HK\$4,631 million and accounted for 35% of total TV sales. Despite the shipment decline of the industry, the Group continued to maintain its leading position with a market share of 21% in terms of sales volume, ranking the first in the PRC market, according to MII (Jan-Jun 2006).

During the period under review, market competition was no less severe than before. Domestic and foreign players competed on pricing and the pace in introducing new products. To maintain our leadership and to prepare for further growth in the market, we implemented a number of measures, which include constantly reviewing and adjusting our supply chain management, strengthening our relationship with distributors of all levels, and improving product planning (launching fewer new models but concentrating on superior models with more new features).

Benefiting from our efforts, we successfully upgraded our product mix. The sales of LCD TVs, slim CRT TVs and 16:9 CRT TVs grew significantly. Our LCD TV products demonstrated a growth of over 200% year-on-year, outperforming the market growth rate, and accounted for 23% of total sales revenue (1H2005: 6%). Our market share in LCD segment, according to China Market Monitor report of May 2006, was 9% among the top notch.

Not only did The Group maintain its leading position in the market, but also its solid operating results. The PRC market recorded an operating profit of HK\$175 million in the first half of 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **European and North American Markets**

Amidst keen market competition, the Group sold a total of 2.70 million sets of TVs in the European and North American markets, with aggregate sales revenue of HK\$6,187 million and accounting for 47% of total turnover of TV business.

In the European market, the Group implemented a number of business strategies to address the needs of its target market segments. It focused on key countries, key product lines and key customers that offered development potential. Nevertheless, the benefits of these efforts were not shown due to the rapidly changing market environment, and improvements were yet to be made with respect to supply chain management and new product pipelines. The European business therefore recorded a widened loss. As for the North American market, the Group exceeded its sales growth objectives in the DLP and LCD product segments and improved its working capital utilization.

Operating loss in the European market amounted to HK\$758 million, as compared with a loss of HK\$133 million for the same period in the previous year, while the operating results of the North American market improved substantially and made a step further in approaching breakeven during the period under review.

### **European Market**

In the first half of 2006, the Group experienced a difficult period during which it had to reduce product prices drastically, partly to boost sales and partly to clear old inventories to make room for future developments.

The market trend of switching from CRT TV to flat panel display TV (LCD and Plasma TV) continued to prevail. According to the GfK's report for March to April 2006, flat display TVs accounted for 79% of market value in the European market. This trend was not favourable to the Group because notwithstanding its strength in the CRT TV segment, improvements in supply chain management and new product pipelines were required with respect to the flat panel display TV segment. As sales of flat panel display to total TV sales increased from 42% in the same period last year to 46% in the period under review, and as flat panel display TVs generally commands a lower gross margin as compared to CRT TVs, the Group's gross margin was adversely impacted.

During the period under review, the Group continued to address the needs of major market segments and key consumers' expectations with the offering of precise and structured products. This strategy also meant that more resources would be placed on countries where the Group had a strong presence. However, the implementation of this strategy was far from satisfactory as we encountered delay in introducing certain product series. At the same time, our efforts in selling the inventory of old models also had a negative impact on the overall sales revenue and profitability.



The Group enjoyed a market share of 6% in Europe. (Source: GfK report, January to April 2006, Europe 4 (France, Germany, Italy, Spain), TTE Group value share)

### **North American Market**

Market competition was keen in North America. Price continued to be the focus of market competition in the mature segments like analogue CRT TV and CRT-based PTV. In the DLP segment, although pricing was a crucial factor, the brand image formed another realm of competition. As for the flat panel segment, both price and brand recognition were of equal importance.

The Group's sales and operational performances in the North American market remained on track with improved operating results during the period under review. In the first six months of 2006, both sales volume and value exceeded expectations as growth in the LCD and DLP product segments outpaced the industry average. The Group's sales also benefited from the ongoing analog to digital transition in the U.S. market. According to Synovate data on consumer purchases of TV's for January to May, the RCA brand ranked the third in the U.S. market with a share of 9%.

The Group's efforts are very focused on satisfying the needs of its customers, including mass merchants, national and regional chains and rental customers. Meanwhile, it also embarked on marketing programmes to strengthen its product positioning as "Affordable Digital Television for Every Room and Budget". Continued improvements in profitability were seen as a result of effective cost controls, reduced inventory, better supply chain management and product mix enhancement. High-end TVs accounted for 58% of the sales revenue in North American market.

### **Emerging Markets and Strategic OEM**

The Emerging Markets and the Strategic OEM business continued to record encouraging performance in the first half of 2006. TV unit sales in these two markets reached 4.44 million sets, representing a surge of 52% over the corresponding period last year. The two segments achieved a combined revenue of HK\$2,376 million, accounting for 18% of total TV sales revenue. During the period under review, the two operations remained profitable and posted an operating profit of HK\$130 million.

For Emerging markets, the average selling price declined slightly due to inventory clearance. However, riding on the market development trend, the Group attained impressive growth in countries including Mexico, Thailand, Australia and India.

Regarding the Strategic OEM business, the Group successfully tapped into the Russian and the Turkish markets which attributed to a substantial increase in sales revenue. During the period, the Group launched a number of tailor-made products which received overwhelming market response and helped the Group to secure orders from clients.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PC Business

Facing intensified market competition, the Group allocated more resources on promoting and selling its product. Results were encouraging. The Group's PC unit shipment recorded a growth of 15% over that of the same period last year, of which notebook PC posted a notable increase of 316% in sales volume. Despite the rise in sales volume, its weight in the Group's overall business performance gradually declined with the globalization of our TV business.

For the six months ended 30 June 2006, the Group's PC sales revenue amounted to HK\$1,207 million and accounted for 8% of the Group's total turnover.

The Group enhanced its marketing and promotional efforts in notebook PC series while introducing the second generation of "SHE" series desktop PC to capture more young female clients. Besides, the Group and Intel jointly launched the world's first-ever notebook PC with core duo CPUs, "Verone", in the first half of 2006.

An operating profit of only HK\$1 million approximately was reported for the period under review, mainly due to a bad debt provision of HK\$14 million.

In order to concentrate on its TV business, the Group, on 21 June 2006, announced the plan to dispose of its PC and web education businesses as well as the other non-TV assets to its ultimate controlling shareholder, TCL Corporation, at an initial aggregate cash consideration of HK\$377 million. Upon the disposal, the Group would be capable of allocating more resources on strengthening its global TV operations and TCL Corporation would be able to deploy more resources in expanding the PC business in the PRC market. It is believed that such initiative will bring forth meaningful benefits to the Group in the long run.

### Outlook

The global TV industry is now undergoing dynamic changes. The Group expects market competition will continue to intensify. Market players compete for survival by offering low priced products, which will further undermine profit margin and brand image. In addition, the ever-changing consumer demand and pursuit in advanced technology also increased its operating cost and research and development ("R&D") expenses.

With flat panel TV becoming the global growth engine, the Group will further strengthen its product development and promotion of flat panel TV and enhance its brand image to reinforce its market competitiveness. The Group will strive to capture more market share in flat panel TV while consolidating its foothold in CRT TV business. Nevertheless, the profit margin of flat panel TVs is currently still lower than that of CRT TVs. The increase in sales mix of flat panel TV may harm the overall profit margin of the Group. To maintain profitability, the Group will further strengthen its supply chain management and perfect its sales and distribution channels, so as to reduce its operating expenses.

The Group will continue to launch new and innovative TV products in the market. It plans to launch over 70 models in the second half of the year to accommodate the change of market demand and product trend. 40% of the new models would be conventional CRT models and 60% of them would be high-end models, in which LCD models would be the dominant one. Looking ahead, the Group will further improve its time-to-market and will accelerate the speed of product rollout.

All of the above strategies will be carried out with the ultimate goal of achieving turnaround in its business within the shortest period and recording profitable results in the foreseeable future.

## FINANCIAL REVIEW

The Group recorded substantial loss for the period under review. Although performance of the Group's businesses in major markets including the PRC and the North America was in line with the management's expectation, with even better-than-expected sales revenue generating from the Emerging and Strategic OEM markets, results of the Group was materially adversely affected by deteriorating performance of the European operations. The Group is currently taking measures to drastically restructure its European operations in order to minimize incurring further losses, and to reschedule its debts so as to improve its solvency position. The Company has decided that it will not invest any further capital in the European business until the European management present to the Company a convincing new business plan.

### Impairment of European Assets

In view of the above, the Group has carefully re-assessed its investment in Europe and estimated the recoverable amounts of all major categories of assets in relation to the European business according to the latest reorganisation plans in Europe. Losses on assets impairment and write-down of HK\$865 million in aggregate were incurred as a result.

The impairment and write-down made for the Group's European assets in the first half of 2006 are summarized as follows:

	<i>HK\$ million</i>
Angers factory assets receivable	79
Trademark fee reinvestment	62
Property, plant and equipment	225
Inventories	499
<b>Total</b>	<b>865</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Significant Investments and Acquisitions**

On 9 March 2006, TCL King Electrical Appliances (Huhehaote) Company Limited ("TCL King Huhehaote"), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with TCL Corporation in relation to the setting up of a finance company in the PRC (the "Finance Company"). Pursuant to the Investment Agreement, TCL King Huhehaote contributed RMB70 million as capital contribution to the Finance Company, representing 14% of the registered capital of the Finance Company.

The establishment of the Finance Company is subject to the obtaining of the approval from the relevant PRC authorities, including but not limited to the China Banking Regulatory Commission. Further details of this transaction were set out in the Company's announcement dated 9 March 2006.

### **Liquidity and Financial Resources**

The Group's principal financial instruments comprise bank loans, factorings, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the Group's lowest cost.

The cash and bank balance as at the year end amounted to HK\$1,771 million, of which 2% was maintained in Hong Kong dollars, 20% in US Dollars, 49% in Renminbi, 13% in Euro and 16% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2005 and there was no asset held under finance lease at the period end.

At the period end, the Group's gearing ratio was 1.2 which is calculated based on the Group's net borrowing of approximately HK\$2,897 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the Company of approximately HK\$2,409 million.

## Going Concern Assumption

As a result of the poor financial performance in Europe, for the period under review the Company breached certain financial covenants under (i) the Facility Agreement dated 23 December 2002 (as amended and supplemented) in relation to HK\$400 million Term Loan Facility and (ii) the Dual Currency Facilities Agreement dated 16 November 2004 in relation to US\$180 million Term and Revolving Loan Facilities (collectively the "Loan Agreements"), both entered into by the Company as borrower. The Group has commenced certain measures to negotiate with its creditors with a view to rescheduling some of its indebtedness in particular for its European operation. Under the Loans Agreements, the aforesaid constituted events of default which would entitle the relevant banks to declare that all the outstanding loans are immediately due and payable.

The aggregate amount outstanding under the Loan Agreements as at 30 June 2006 was HK\$1,529.8 million. If the banks are to take action in respect of any of the events of default, there would be fundamental uncertainty as to the Group's ability to continue operation as a going concern. Nevertheless, the directors of the Company are of the view that it is appropriate to adopt the going concern basis in preparing the financial statements based on the followings:

- (a) It is expected that on 8 September 2006, the Company will complete the disposal of its computer and non-core business to T.C.L. Industries and the proceeds of around HK\$377 million will be used to partially repay the amount outstanding under the Loan Agreements. The amount of current liabilities will thereby be reduced.
- (b) As at 30 June 2006, the Group's current liabilities exceeded its current assets by approximately HK\$1,030 million. It mainly resulted from (i) classification as current liabilities of the outstanding loans under the Loan Agreements as a consequence of the said events of default, and (ii) the substantial impairment and write-down made by the Company for its investment in Europe. The impairment and write-down though had significant impact on the financial statements of the Group, they did not have adverse impact on cash flows of the Group.
- (c) It is considered that the debts rescheduling currently implemented by the Group would be conducive for its European operations to easing its financial pressure and facilitating its turning around. Further, as mentioned above, the Company has decided that no further capital will be invested in the European business. Therefore, the overall position of the Company will be better in future.
- (d) The Group is now actively exploring the availability of various options of fund raising to help improve the financial position of the Group and in the process of negotiating with the relevant banks to restructure the loans.

## MANAGEMENT DISCUSSION AND ANALYSIS

Having considered the above, the directors of the Company are confident that it is unlikely that the banks will declare all the outstanding loans under the Loan Agreements to become immediately due and payable. As the Group has adequate resources to continue in operational existence for the foreseeable future, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

### **Capital Commitments and Contingent Liabilities**

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2005.

### **Foreign Exchange Exposure**

Due to its international presence and operations, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralize foreign currency management to monitor the company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging.

### **Employee and Remuneration Policy**

The Group had a total of 25,000 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 168,817,861 shares remained outstanding at the period end.

## OTHER INFORMATION

**DIRECTORS' INTERESTS**

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

**(a) Long positions in the shares of the Company**

<b>Directors</b>	<b>Capacity</b>	<b>No. of issued shares held</b>	<b>Percentage of share capital of the Company</b>
Li Dong Sheng	Beneficial owner	17,232,000	0.44%
Wang Kang Ping	Beneficial owner	100,000	0.003%

## OTHER INFORMATION

**(b) Long positions in underlying shares of the Company – share options**

The following share options were outstanding under the share option schemes during the period:

Name or category of participant	Number of share options				At 30 June 2006	Date of grant	Exercise price HK\$	Exercise period	Price of Company's shares	
	At 1 January 2006	Reclassified during the period	Cancelled during the period	Lapsed during the period					at grant date <sup>a</sup> HK\$	at exercise Date <sup>a</sup> HK\$
<b>Directors</b>										
<i>Executive directors</i>										
Li Dong Sheng	5,000,000	-	-	-	5,000,000	31-May-05	1.400	Note 3	1.410	N/A
Lu Zhong Li	2,500,000	-	-	-	2,500,000	31-May-05	1.400	Note 3	1.410	N/A
Yan Yong, Vincent <sup>a</sup>	68,000	-	-	-	68,000	30-Jan-03	2.114	Note 2	2.075	N/A
	3,450,000	-	-	-	3,450,000	31-May-05	1.400	Note 3	1.410	N/A
	3,518,000	-	-	-	3,518,000					
Wang Kang Ping <sup>a</sup>	-	100,000	-	-	100,000	30-Jan-03	2.114	Note 2	2.075	N/A
	-	1,400,000	-	-	1,400,000	31-May-05	1.400	Note 3	1.410	N/A
	-	1,500,000	-	-	1,500,000					
Shi Wanwen <sup>a</sup>	-	2,600,000	-	-	2,600,000	31-May-05	1.400	Note 3	1.410	N/A
Hu Qiu Sheng <sup>a</sup>	2,500,000	(2,500,000)	-	-	-	31-May-05	1.400	Note 3	1.410	N/A
Zhao Zhong Yao <sup>a</sup>	68,000	(68,000)	-	-	-	30-Jan-03	2.114	Note 2	2.075	N/A
	3,200,000	(3,200,000)	-	-	-	31-May-05	1.400	Note 3	1.410	N/A
	3,268,000	(3,268,000)	-	-	-					
	16,786,000	(1,668,000)	-	-	15,118,000					
<i>Non-Executive directors</i>										
Albert Thomas da Rosa, Junior	300,000	-	-	-	300,000	31-May-05	1.400	Note 3	1.410	N/A
Tang Culiang	300,000	-	-	-	300,000	31-May-05	1.400	Note 3	1.410	N/A
Wang Bing	300,000	-	-	-	300,000	31-May-05	1.400	Note 3	1.410	N/A
Hon Fong Ming, Perry <sup>a</sup>	300,000	(300,000)	-	-	-	31-May-05	1.400	Note 3	1.410	N/A
	1,200,000	(300,000)	-	-	900,000					
<b>Other employees</b>										
	10,000,000	-	-	(10,000,000)	-	4-Nov-02	2.305	Note 1	2.175	N/A
	20,286,861	(32,000)	-	-	20,254,861	30-Jan-03	2.114	Note 2	2.075	N/A
	135,070,000	2,000,000	(4,525,000)	-	132,545,000	31-May-05	1.400	Note 3	1.410	N/A
	165,356,861	1,968,000	(4,525,000)	(10,000,000)	152,799,861					
	183,342,861	-	(4,525,000)	(10,000,000)	168,817,861					



- ⊗ Mr. Zhao Zhong Yao and Mr. Hon Fong Ming, Perry retired as executive director and independent non-executive director of the Company respectively on 8 June 2006; while Mr. Hu Qiu Sheng and Mr. Yan Yong, Vincent resigned as executive director of the Company on 30 June 2006 and 20 July 2006 respectively.
- ⊕ Mr. Wang Kang Ping and Mr. Shi Wanwen were appointed as executive directors of the Company on 8 June 2006 and 30 June 2006 respectively.
- \* The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange of Hong Kong Limited ("Stock Exchange") closing price on the trading day immediately prior to the date of grant of the options.
- \* The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.
- Note 1 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.
- Note 2 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, up to 29 July 2006.
- Note 3 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, up to 30 November 2008.

### (c) Long positions in shares of associated corporations of the Company

Directors	Name of associated corporation	Capacity	No. of shares held	Approximate percentage of issued share capital in associated corporation
Li Dong Sheng	TCL Corporation	Beneficial owner	144,521,730	5.59%
Li Dong Sheng	TCL Communication Technology Holdings Limited	Beneficial owner	77,788,800	1.31%
Lu Zhong Li	TCL Corporation	Beneficial owner	23,569,661	0.91%
Wang Kang Ping	TCL Communication Technology Holdings Limited	Beneficial owner	80,000	0.001%
Shi Wanwen	TCL Corporation	Beneficial owner	2,283,465	0.09%

## OTHER INFORMATION

**(d) Long positions in underlying shares of associated corporations of the Company – share options**

<b>Directors</b>	<b>Name of associated corporation</b>	<b>Capacity</b>	<b>No. of shares held</b>	<b>Percentage of issued share capital</b>
Li Dong Sheng	TCL Communication Technology Holdings Limited	Beneficial owner	15,454,550	0.26%
Lu Zhong Li	TCL Communication Technology Holdings Limited	Beneficial owner	3,727,275	0.06%
Yan Yong, Vincent	TCL Communication Technology Holdings Limited	Beneficial owner	2,145,456	0.04%
Wang Kang Ping	TCL Communication Technology Holdings Limited	Beneficial owner	3,027,274	0.05%
Shi Wanwen	TCL Communication Technology Holdings Limited	Beneficial owner	654,546	0.01%

Save as disclosed above, as at 30 June 2006, 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 for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2006, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register kept by the Company under Section 336 of the SFO were as follows:

### Long positions in shares of the Company:

Shareholders	Type of interest	No. of shares held <i>(Notes)</i>	% of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289	38.74%
Thomson S.A.	Interest of controlled corporation	1,144,182,095	29.32%

*Notes:*

- (a) TCL Corporation is deemed to be interested in 1,512,121,289 shares held by T.C.L. Industries Holdings (H.K.) Ltd., its direct wholly owned subsidiary, for the purpose of the SFO.
- (b) Thomson S.A. is deemed to be interested in 67,610,864 shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 30 June 2006, no person, 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.

## PURCHASES, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period under review.

## OTHER INFORMATION

### CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for the six months ended 30 June 2006, complied with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, save for the deviation from code provision B.1.1 which provides that a majority of the members of the remuneration committee should be independent non-executive directors. Since 8 June 2006, after the resignation of Mr. Hon Fong Ming from being an independent non-executive director and a member of the remuneration committee of the Company, the committee has only 4 members, 2 of whom are independent non-executive directors. The Board is in the process of identifying a replacement independent non-executive director. Due to an inadvertent mistake, disclosure regarding this non-compliance with code provision B.1.1 has not been made in the Company's interim results announcement dated 30 August 2006.

### REVIEW OF ACCOUNTS

The interim results have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code. The Audit Committee comprises Tang Guliang and Wang Bing, the independent non-executive directors, and Albert Thomas da Rosa, Junior, a non-executive director of the Company.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on the same terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period under review.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Since 8 June 2006, only two independent non-executive directors remain in the Board. Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors. The Board is in the process of identifying a replacement independent non-executive director.

On behalf of the Board

**LI Dong Sheng**  
Chairman

Hong Kong, 30 August 2006

*As at the date of this report, the Board comprises Li Dong Sheng, Lu Zhong Li, Wang Kang Ping and Shi Wanwen as executive directors, Albert Thomas da Rosa, Junior, Alastair Kenneth Ruskin Campbell and Didier Trutt as non-executive directors, and Tang Guliang and Wang Bing as independent non-executive directors.*