



*Rebirth* of a Champion

Interim Report 2007

**TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED**

Stock code: 1070

创意感动生活  
The Creative Life

**TCL**



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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Chairman

Mr. Li Dongsheng

#### Executive Directors

Ms. Lu Zhongli  
Mr. Wang Kangping  
Mr. Shi Wanwen  
Mr. Yuan Bing

#### Non-Executive Director

Mr. Albert Thomas da Rosa, Junior

#### Independent Non-Executive Directors

Mr. Tang Guliang  
Mr. Robert Maarten Westerhof  
Ms. Wu Shihong (appointed on 30 June 2007)  
Mr. Wang Bing (retired on 30 June 2007)

### 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

## 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 2007 with comparative figures for the previous period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

|  | <i>Notes</i> | <b>6 months ended<br/>30 June 2007<br/>(unaudited)<br/>HK\$'000</b> | 6 months ended<br>30 June 2006<br>(unaudited)<br>HK\$'000 |
|--|--------------|---|---|
| <b>CONTINUING OPERATIONS</b>   |              |   |   |
| TURNOVER   | 5            | <b>9,510,819</b>  | 14,503,461  |
| Cost of sales  |              | <b>(7,879,512)</b>  | (12,239,068)  |
| Gross profit   |              | <b>1,631,307</b>  | 2,264,393   |
| Other revenue and gains  |              | <b>61,258</b>   | 101,950   |
| Selling and distribution costs   |              | <b>(1,260,040)</b>  | (1,944,623)   |
| Administrative expenses  |              | <b>(404,314)</b>  | (487,035)   |
| Research and development costs   |              | <b>(44,991)</b>   | (201,004)   |
| Other operating expenses   |              | <b>(74,606)</b>   | (238,896)   |
|  |              | <b>(91,386)</b>   | (505,215)   |
| Fair value losses of equity investments<br>at fair value through profit or loss        |              | –   | (37,256)  |
| Costs in connection with the restructuring and<br>winding-down of the EU Business, net | 6            | –   | (865,134)   |
| Finance costs  | 7            | <b>(90,114)</b>   | (127,110)   |
| Share of profits and losses of:  |              |   |   |
| Jointly-controlled entities  |              | <b>(2,324)</b>  | 1,213   |
| An associate   |              | <b>718</b>  | –   |
| LOSS BEFORE TAX  |              | <b>(183,106)</b>  | (1,533,502)   |
| Tax  | 8            | <b>(33,831)</b>   | (67,548)  |
| LOSS FOR THE PERIOD FROM<br>CONTINUING OPERATIONS                                      |              | <b>(216,937)</b>  | (1,601,050)   |
| <b>DISCONTINUED OPERATION</b>  |              |   |   |
| Profit for the period from a discontinued operation                                    | 9            | –   | 4,299   |
| LOSS FOR THE PERIOD  |              | <b>(216,937)</b>  | (1,596,751)   |

## INTERIM RESULTS

### CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

|  | <b>6 months ended<br/>30 June 2007<br/>(unaudited)<br/>HK\$'000</b> | 6 months ended<br>30 June 2006<br>(unaudited)<br>HK\$'000 |
|--|---|---|
|  | <i>Notes</i>  |   |
| ATTRIBUTABLE TO:   |   |   |
| Equity holders of the parent   | <b>(219,599)</b>  | (1,599,589)   |
| Minority interests   | <b>2,662</b>  | 2,838   |
|  | <b>(216,937)</b>  | (1,596,751)   |
| LOSS PER SHARE ATTRIBUTABLE<br>TO ORDINARY EQUITY HOLDERS<br>OF THE PARENT | 12  |   |
| Basic  |   |   |
| – For loss for the period  | <b>HK(5.63) cents</b>   | HK(40.98) cents   |
| – For loss from continuing operations                                      | <b>HK(5.63) cents</b>   | HK(41.09) cents   |
| Diluted  |   |   |
| – For loss for the period  | <b>N/A</b>  | N/A   |
| – For loss from continuing operations                                      | <b>N/A</b>  | N/A   |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  |    | 30 June<br>2007<br>(unaudited)<br>HK\$'000 | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|--|----|--|--|
| NON-CURRENT ASSETS                         |    |  |  |
| Property, plant and equipment              |    | 1,811,044                                  | 1,993,791                                    |
| Prepaid land lease payments                |    | 97,436                                     | 86,318                                       |
| Goodwill                                   |    | 119,638                                    | 119,638                                      |
| Other intangible assets                    |    | 65,778                                     | 67,784                                       |
| Interests in jointly-controlled entities   |    | 111,868                                    | 110,444                                      |
| Interests in an associate                  |    | 72,485                                     | 69,566                                       |
| Available-for-sale investments             |    | 2,957                                      | 2,325  |
| Prepaid royalty                            |    | 273,682                                    | 269,596                                      |
| Deferred tax assets                        |    | 17,859                                     | 20,678                                       |
| Total non-current assets                   |    | <b>2,572,747</b>                           | 2,740,140                                    |
| CURRENT ASSETS                             |    |  |  |
| Inventories                                |    | 2,302,851                                  | 3,206,919                                    |
| Trade and bills receivables                | 13 | 2,277,860                                  | 3,595,130                                    |
| Other receivables                          |    | 772,298                                    | 926,925                                      |
| Tax recoverable                            |    | 15,769                                     | 23,257                                       |
| Pledged deposits                           |    | –  | 10,000                                       |
| Cash and bank balances                     |    | 1,055,986                                  | 1,894,633                                    |
| Total current assets                       |    | <b>6,424,764</b>                           | 9,656,864                                    |
| CURRENT LIABILITIES                        |    |  |  |
| Trade and bills payables                   | 14 | 3,098,947                                  | 4,642,315                                    |
| Tax payable                                |    | 108,381                                    | 111,124                                      |
| Other payables and accruals                |    | 1,177,237                                  | 2,099,535                                    |
| Provisions                                 |    | 330,770                                    | 805,328                                      |
| Interest-bearing bank and other borrowings | 15 | 2,152,761                                  | 2,660,582                                    |
| Due to the immediate holding company       | 16 | 156,306                                    | –  |
| Due to the ultimate holding company        | 16 | 415,806                                    | 347,999                                      |
| Total current liabilities                  |    | <b>7,440,208</b>                           | 10,666,883                                   |
| NET CURRENT LIABILITIES                    |    | <b>(1,015,444)</b>                         | (1,010,019)                                  |
| TOTAL ASSETS LESS CURRENT LIABILITIES      |    | <b>1,557,303</b>                           | 1,730,121                                    |

## INTERIM RESULTS

### CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

|  |              | <b>30 June<br/>2007<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|--|--------------|--|--|
|  | <i>Notes</i> |  |  |
| NON-CURRENT LIABILITIES  |              |  |  |
| Deferred tax liabilities                                       |              | <b>17,199</b>  | 21,908                                       |
| Pensions and other post-employment benefits                    |              | <b>18,769</b>  | 18,171                                       |
| Total non-current liabilities                                  |              | <b>35,968</b>  | 40,079                                       |
| Net assets   |              | <b>1,521,335</b>                                     | 1,690,042                                    |
| EQUITY   |              |  |  |
| <b>Equity attributable to equity holders<br/>of the parent</b> |              |  |  |
| Issued capital   | 17           | <b>390,295</b>                                       | 390,295                                      |
| Reserves   |              | <b>1,036,686</b>                                     | 1,210,871                                    |
|  |              | <b>1,426,981</b>                                     | 1,601,166                                    |
| <b>Minority interests</b>                                      |              | <b>94,354</b>  | 88,876                                       |
| Total equity   |              | <b>1,521,335</b>                                     | 1,690,042                                    |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Issued<br>share<br>capital | Share<br>premium<br>account | Share<br>option<br>reserve | Capital<br>reserve | Reserve<br>funds | Exchange<br>fluctuation<br>reserve | Retained<br>profits/<br>(Accumulated<br>losses) | Minority<br>interests | Total<br>equity |
|---|----------------------------|-----------------------------|----------------------------|--------------------|------------------|------------------------------------|---|-----------------------|-----------------|
|   | HK\$'000                   | HK\$'000                    | HK\$'000                   | HK\$'000           | HK\$'000         | HK\$'000                           | HK\$'000  | HK\$'000              | HK\$'000        |
| 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<br>arrangements | -                          | -                           | 10,939                     | -                  | -                | -                                  | -   | -                     | 10,939          |
| Exchange realignment                        | -                          | -                           | -                          | -                  | -                | 6,846                              | -   | 1,234                 | 8,080           |
| Profit/(loss) for the period                | -                          | -                           | -                          | -                  | -                | -                                  | (1,599,589)                                     | 2,838                 | (1,596,751)     |
| Transfer from retained<br>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       |
| AT 1 JANUARY 2007                           | 390,295                    | 1,560,215                   | 45,394                     | 59,099             | 668,262          | 151,135                            | (1,273,234)                                     | 88,876                | 1,690,042       |
| Equity-settled share option<br>arrangements | -                          | -                           | 3,537                      | -                  | -                | -                                  | -   | -                     | 3,537           |
| Exchange realignment                        | -                          | -                           | -                          | -                  | -                | 41,877                             | -   | 2,816                 | 44,693          |
| Profit/(loss) for the period                | -                          | -                           | -                          | -                  | -                | -                                  | (219,599)                                       | 2,662                 | (216,937)       |
| AT 30 JUNE 2007                             | 390,295                    | 1,560,215                   | 48,931                     | 59,099             | 668,262          | 193,012                            | (1,492,833)                                     | 94,354                | 1,521,335       |



## INTERIM RESULTS

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2007<br>(unaudited)<br>HK\$'000 | 2006<br>(unaudited)<br>HK\$'000 |
| Net cash inflow/(outflow) from operating activities      | <b>(370,925)</b>                | 48,941                          |
| Net cash inflow/(outflow) from investing activities      | <b>(179,369)</b>                | 37,832                          |
| Net cash outflow from financing activities               | <b>(277,260)</b>                | (104,930)                       |
| <b>Net decrease in cash and cash equivalents</b>         | <b>(827,554)</b>                | (18,157)                        |
| Cash and cash equivalents at beginning of period         | <b>1,841,585</b>                | 1,720,490                       |
| Effect of foreign exchange rate changes, net             | <b>41,955</b>                   | (57,696)                        |
| <b>Cash and cash equivalents at end of period</b>        | <b>1,055,986</b>                | 1,644,637                       |
| <b>Analysis of balances of cash and cash equivalents</b> |                                 |                                 |
| Cash and bank balances                                   | <b>1,055,986</b>                | 1,722,131                       |
| Bank overdrafts  | –                               | (77,494)                        |
|  | <b>1,055,986</b>                | 1,644,637                       |

Notes:

## 1. Basis of presentation

As at 30 June 2007, the Group had net current liabilities of approximately HK\$1,015 million that included bank loans of approximately HK\$1,072 million (the "Syndication Loans") which were repayable on demand due to the breach of certain financial covenants of the relevant bank loan agreements. The Group also incurred a loss attributable to equity holders of the parent of approximately HK\$220 million for the period ended 30 June 2007.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

- (i) On 15 May 2007, the Company proposed to raise not less than approximately HK\$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK\$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK\$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders would be fully underwritten by T.C.L. Industries Holdings (H.K.) Ltd ("T.C.L. Industries") pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007.

The Rights Issue became unconditional on 11 July 2007 and the Company raised a total of approximately HK\$781 million (before expenses) by the issue of approximately 1,951 million Rights Shares.

Further details of the Rights Issue are set out in the Company's announcements dated 15 May 2007 and 12 July 2007 and circular dated 5 June 2007.

- (ii) On 17 May 2007, the Company obtained an undertaking from TCL Corporation which undertook that TCL Corporation together with T.C.L. Industries and TCL Finance Co., Ltd ("TCL Finance"), would make available to the Group loans of not less than HK\$469 million, in aggregate, at each month end for the period from 17 May 2007 to 30 June 2008 or the date on which the issuance of convertible bonds discussed in (iii) below was completed, whichever was earlier.

## INTERIM RESULTS

### 1. Basis of presentation (continued)

- (iii) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US\$140 million (equivalent to approximately HK\$1,095 million). The Bonds bear interest at 4.5% per annum and the initial conversion price of HK\$0.40 will be adjusted to 115% of the lower of HK\$0.58 and the volume weighted average price of the shares of the Company for a period of 25 consecutive trading days immediately after the completion of the Rights Issue (and further annual resets in accordance with the terms of the Bonds.)

The completion of the Purchase Agreement took place and the Bonds were issued on 12 July 2007.

Further details of the issue of the Bonds are set out in the Company's announcements dated 21 May 2007 and 12 July 2007.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the results of the fund raising exercises completed in July 2007, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 30 June 2007.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

### 2. Basis of preparation and accounting policies

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").

### 3. Impact of new HKFRSs and HKASs

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 2006, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also included HKASs and Interpretations, that affect the Group and are adopted for the first time for the current period's financial statements.

- HKAS 1 Amendment Capital Disclosures
- HKFRS 7 Financial Instruments: Disclosures
- HK(IFRIC) – Int 7 Applying the Restatement Approach under HKAS 29  
*Financial Reporting in Hyperinflationary Economies*
- HK(IFRIC) – Int 8 Scope of HKFRS 2
- HK(IFRIC) – Int 9 Reassessment of Embedded Derivatives
- HK(IFRIC) – Int 10 Interim Financial Reporting and Impairment

The revised HKAS 1 affects the disclosures of qualitative information about the Group's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, and compliance with any capital requirements and the consequences of any non-compliance.

The HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32.

The HK(IFRIC)-Int 7 addresses requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with HKAS 29.

The HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

The HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

## INTERIM RESULTS

### 3. Impact of new HKFRSs and HKASs (continued)

The HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and condensed income statement arising from the above-mentioned accounting standards.

### 4. Impact of issued but not yet effective HKFRSs and HKASs

The Group has not applied the following new and revised HKFRSs and HKASs, which have been issued but are not yet effective, in these interim financial statements:

- HKFRS 8 Operating Segments
- HKAS 23 (Revised) Borrowing Costs
- HK(IFRIC) – Int 11 HKFRS 2 Group and Treasury Share Transactions
- HK(IFRIC) – Int 12 Service Concession Arrangements

HKFRS 8 (effective for accounting period beginning on or after 1 January 2009) supersedes HKAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

HKAS 23 (Revised), HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2007 and 1 January 2008 respectively.

The Group is in 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 the HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 5. Segment information

An analysis of the Group's turnover and segment results by principal activities for the six months ended 30 June 2007 and 2006 are as follows:

|   | Turnover                        |                                 | Segment Results                 |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 2007<br>(unaudited)<br>HK\$'000 | 2006<br>(unaudited)<br>HK\$'000 | 2007<br>(unaudited)<br>HK\$'000 | 2006<br>(unaudited)<br>HK\$'000 |
| Continuing operations:  |                                 |                                 |                                 |                                 |
| Television  | <b>8,158,453</b>                | 13,195,079                      | <b>(28,381)</b>                 | (494,484)                       |
| Home networking   | <b>1,171,951</b>                | 1,003,083                       | <b>34,457</b>                   | 38,122                          |
| Others  | <b>180,415</b>                  | 305,299                         | <b>(8,391)</b>                  | 1,427                           |
|   | <b>9,510,819</b>                | 14,503,461                      | <b>(2,315)</b>                  | (454,935)                       |
| Discontinued operation:   |                                 |                                 |                                 |                                 |
| Computer  | –                               | 1,202,928                       | –                               | 1,873                           |
|   | <b>9,510,819</b>                | 15,706,389                      | <b>(2,315)</b>                  | (453,062)                       |
| Interest income   |                                 |                                 | <b>9,363</b>                    | 10,012                          |
| Corporate expenses  |                                 |                                 | <b>(98,434)</b>                 | (57,697)                        |
| Finance costs   |                                 |                                 | <b>(90,114)</b>                 | (127,279)                       |
| Share of profits and losses of:   |                                 |                                 |                                 |                                 |
| Jointly-controlled entities   |                                 |                                 | <b>(2,324)</b>                  | 1,213                           |
| An associate  |                                 |                                 | <b>718</b>                      | –                               |
| Fair value losses of equity investments at fair value through profit or loss        |                                 |                                 | –                               | (37,256)                        |
| Costs in connection with the restructuring and winding-down of the EU business, net |                                 |                                 | –                               | (865,134)                       |
| Loss before tax   |                                 |                                 | <b>(183,106)</b>                | (1,529,203)                     |
| Tax   |                                 |                                 | <b>(33,831)</b>                 | (67,548)                        |
| Loss for the period   |                                 |                                 | <b>(216,937)</b>                | (1,596,751)                     |

## INTERIM RESULTS

### 6. Costs in connection with the restructuring and winding-down of the EU Business, net

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2007                     | 2006        |
|  | (unaudited)              | (unaudited) |
|  | HK\$'000                 | HK\$'000    |
| Impairment of:                                       |                          |             |
| Items of property, plant and equipment               | -                        | 225,000     |
| Long term receivables                                |                          |             |
| – Angers factory assets receivable                   | -                        | 79,000      |
| – Trademark fee reinvestment                         | -                        | 43,775      |
| Other receivables                                    |                          |             |
| – Trademark fee reinvestment<br>(current portion)    | -                        | 18,359      |
|  | -                        | 366,134     |
| Write-down of inventories to net<br>realizable value | -                        | 499,000     |
| Total  | -                        | 865,134     |

On 24 May 2007, a wholly owned subsidiary of the Group – TTE Europe SAS (“TTE Europe”) filed a declaration of insolvency to the French court and the French court appointed a judicial liquidator (the “Liquidator”) to take control over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person being responsible for winding-up TTE Europe by liquidating its assets and making payment to its creditors. The Group deconsolidated TTE Europe and its subsidiaries (collectively the “EU Group”) on 29 May 2007 from the Group’s financial statements for the period ended 30 June 2007.

## 7. Finance costs

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2007                     | 2006        |
|   | (unaudited)              | (unaudited) |
|   | HK\$'000                 | HK\$'000    |
| Interest on:  |                          |             |
| Bank loans and overdrafts   | 81,086                   | 97,767      |
| Other loan wholly repayable within five years                                 | 407                      | 5,512       |
| Loan from a shareholder   | –                        | 13,417      |
| Loan from an associate  | 1,906                    | –           |
| Loan from the immediate holding company                                       | 2,211                    | –           |
| Loan from the ultimate holding company  | 4,504                    | 10,583      |
|   | <b>90,114</b>            | 127,279     |
| Attributable to:  |                          |             |
| A discontinued operation (note 9)   | –                        | 169         |
| Continuing operations reported in the condensed consolidated income statement | 90,114                   | 127,110     |
|   | <b>90,114</b>            | 127,279     |

## 8. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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:

|           | Six months ended 30 June |             |
|-----------|--------------------------|-------------|
|           | 2007                     | 2006        |
|           | (unaudited)              | (unaudited) |
|           | HK\$'000                 | HK\$'000    |
| Current:  |                          |             |
| Hong Kong | 4,630                    | 5,553       |
| Elsewhere | 28,365                   | 64,636      |
| Deferred  | 836                      | (2,641)     |
|           | <b>33,831</b>            | 67,548      |



## INTERIM RESULTS

### 9. Discontinued operation

On 21 June 2006, the Company and T.C.L. Industries entered into a sale and purchase agreement and pursuant to which the Company, inter alia, disposed of its entire interest in TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology") to T.C.L. Industries for a consideration of HK\$283 million. Computer Technology and its subsidiaries were principally engaged in the manufacture and sale of computer related products and represented a separate business segment, the Computer segment, of the Group that was part of the PRC operations. The disposal was completed on 8 September 2006.

The result of the Computer segment is presented below:

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2007<br>(unaudited)<br>HK\$'000 | 2006<br>(unaudited)<br>HK\$'000 |
| Turnover  | -                               | 1,202,928                       |
| Other revenue and gains                               | -                               | 10,598                          |
| Expenses  | -                               | (1,209,058)                     |
| Finance costs   | -                               | (169)                           |
| Profit before tax from the discontinued operation     | -                               | 4,299                           |
| Tax   | -                               | -                               |
| Profit for the period from the discontinued operation | -                               | 4,299                           |

### 10. Depreciation and amortization

During the period, depreciation of HK\$153,363,000 (2006: HK\$208,019,000) was charged to the income statement in respect of the Group's property, plant and equipment; and amortization of HK\$2,038,000 (2006: HK\$3,587,000) and HK\$2,627,000 (2006: HK\$2,739,000) were charged to the income statement in respect of the Group's other intangible assets and prepaid land lease payments, respectively.

### 11. Dividend

The directors do not recommend the payment of any dividend in respect of the period.

## 12. Loss per share attributable to ordinary equity holders of the parent

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

|  | Six months ended 30 June |             |
|--|--------------------------|-------------|
|  | 2007                     | 2006        |
|  | (unaudited)              | (unaudited) |
|  | HK\$'000                 | HK\$'000    |

### Loss

Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation:

|                               |                  |             |
|-------------------------------|------------------|-------------|
| From continuing operations    | <b>(219,599)</b> | (1,603,888) |
| From a discontinued operation | -                | 4,299       |
|                               | <b>(219,599)</b> | (1,599,589) |

|  | Number of shares         |      |
|--|--------------------------|------|
|  | Six months ended 30 June |      |
|  | 2007                     | 2006 |

### Shares

Weighted average number of ordinary shares in issue during the period used in basic and diluted loss per share calculation

|  |                      |               |
|--|----------------------|---------------|
|  | <b>3,902,951,727</b> | 3,902,951,727 |
|--|----------------------|---------------|

Diluted loss per share amounts for the period ended 30 June 2007 and 30 June 2006 have not been disclosed, as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

## INTERIM RESULTS

### 13. 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. The Group also entered into certain receivables purchase agreements with its banks. Pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks.

In view of the aforementioned and the fact 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<br/>2007<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|----------------------|--|--|
| Current to 90 days   | <b>2,020,621</b>                                     | 3,274,377                                    |
| 91 days to 180 days  | <b>222,467</b>                                       | 163,770                                      |
| 181 days to 365 days | <b>16,328</b>  | 119,421                                      |
| Over 365 days        | <b>18,444</b>  | 37,562                                       |
|                      | <b>2,277,860</b>                                     | 3,595,130                                    |

At 30 June 2007, the Group's trade receivables of approximately HK\$431,682,000 (31 December 2006: HK\$764,384,000) (the "Factored Receivables") were factored to certain banks 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.

Accordingly, the advances from the relevant banks of approximately HK\$431,682,000 (31 December 2006: HK\$764,384,000) 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 15).

#### 14. 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<br/>2007<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|----------------------|--|--|
| Current to 90 days   | <b>2,915,479</b>                                     | 4,580,604                                    |
| 91 days to 180 days  | <b>33,555</b>  | 35,744                                       |
| 181 days to 365 days | <b>90,461</b>  | 25,967                                       |
| Over 365 days        | <b>59,452</b>  | –  |
|                      | <b>3,098,947</b>                                     | 4,642,315                                    |

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

#### 15. Interest-bearing bank and other borrowings

|  | <b>30 June<br/>2007<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|--|--|--|
| <b>Current</b>   |  |  |
| Bank overdrafts – secured  | –  | 53,048                                       |
| Bank loans – secured   | –  | 6,475  |
| Bank loans – unsecured, on demand                                | <b>1,072,276</b>                                     | 1,114,831                                    |
| Bank loans – unsecured   | <b>418,939</b>                                       | 412,159                                      |
| Advances from banks as consideration for<br>Factored Receivables | <b>431,682</b>                                       | 764,384                                      |
| Trust receipt loans – secured                                    | –  | 6,785  |
| Trust receipt loans – unsecured                                  | <b>60,513</b>  | 79,327                                       |
| Loan from TCL Finance  | <b>132,618</b>                                       | 187,027                                      |
| Other Loan   | <b>36,733</b>  | 36,546                                       |
|  | <b>2,152,761</b>                                     | 2,660,582                                    |

## INTERIM RESULTS

### 15. Interest-bearing bank and other borrowings (continued)

*Notes:*

- (a) As at 30 June 2007, the Group does not have any overdraft facilities available (31 December 2006: the Group's overdraft facilities amounting to HK\$53,048,000, of which HK\$53,048,000 had been utilized as at the balance sheet date, were secured by the pledge of certain of the Group's inventories amounting to HK\$53,292,000).
- (b) All of the Group's bank loans are unsecured (31 December 2006: certain of the Group's bank loans were secured by the pledge of certain of the Group's time deposits and items of property, plant and equipment amounting to HK\$10,000,000 and HK\$92,834,000 respectively).
- (c) As at 30 June 2007, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.
- (d) Except for the unsecured bank loans with an aggregate carrying amount of HK\$418,939,000 (31 December 2006: HK\$412,159,000), the loan from TCL Finance of HK\$132,618,000 (31 December 2006: HK\$187,027,000) and other loan of HK\$36,733,000 (31 December 2006: HK\$36,546,000), 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\$315,726,000 (31 December 2006: HK\$315,657,000) as at the balance sheet date.

#### ***Breach of loan covenants and subsequent full repayment of the Syndication Loans***

As at 30 June 2007, in respect of the Syndication Loans with an aggregate carrying amount of HK\$1,072,276,000 (31 December 2006: HK\$1,114,831,000), the Group breached certain of the financial covenants of the relevant loan agreements, which are primarily related to the value of the Group's consolidated tangible net worth, interest cover ratio, current ratio and debt ratio.

Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the Syndication Loans have been classified as current liabilities in these financial statements as at 30 June 2007.

No renegotiation of the terms of the Syndication Loans was initiated since the Group had repaid the Syndication Loans in full on 12 July 2007.

## 16. Due to the immediate holding company/the ultimate holding company

The amounts due to the immediate holding company and the ultimate holding company are unsecured and repayable within one year, and bear interest at LIBOR + 1.5% per annum and 4.32% per annum (31 December 2006: 4.32%), respectively.

## 17. Share capital

|   | <b>30 June<br/>2007<br/>(unaudited)<br/>HK\$'000</b> | 31 December<br>2006<br>(audited)<br>HK\$'000 |
|---|--|--|
| Authorized:   |  |  |
| 22,000,000,000 (31 December 2006: 8,000,000,000)<br>shares of HK\$0.10 each | <b>2,200,000</b>                                     | 800,000                                      |
| Issued and fully paid:  |  |  |
| 3,902,951,727 (31 December 2006: 3,902,951,727)<br>shares of HK\$0.10 each  | <b>390,295</b>                                       | 390,295                                      |

Pursuant to the resolution passed by the Company's shareholders on 21 June 2007, the authorized share capital of the Company was increased from HK\$800,000,000 to HK\$2,200,000,000 by the creation of an additional 14,000,000,000 shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

## 18. Comparative amounts

The comparative income statement has been re-presented as if the operation discontinued during 2006 had been discontinued at the beginning of the comparative period. (note 9)

## INTERIM RESULTS

### 19. Related party transactions

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

|   | Six month ended 30 June |                         |
|---|-------------------------|-------------------------|
|   | 2007                    | 2006                    |
|   | (unaudited)<br>HK\$'000 | (unaudited)<br>HK\$'000 |
| Jointly-controlled entities:                      |                         |                         |
| Sales of raw materials                            | <b>19,275</b>           | 449,808                 |
| Sales of finished goods                           | <b>44,384</b>           | 45,317                  |
| Purchases of finished goods                       | <b>319,356</b>          | 455,689                 |
| An associate:                                     |                         |                         |
| Interest income                                   | <b>202</b>              | –                       |
| Interest expense                                  | <b>3,904</b>            | –                       |
| Other financial service fees                      | <b>75</b>               | –                       |
| Ultimate holding company:                         |                         |                         |
| Interest expense                                  | <b>4,504</b>            | 10,583                  |
| Immediate holding company:                        |                         |                         |
| Interest expense                                  | <b>2,211</b>            | –                       |
| Companies controlled by ultimate holding company: |                         |                         |
| Sales of finished goods                           | <b>3,853</b>            | 10,358                  |
| Purchases of raw materials                        | <b>280,184</b>          | 273,417                 |
| Purchases of finished goods                       | <b>10,005</b>           | 39,571                  |
| Subcontracting fee expense                        | <b>3,843</b>            | 4,647                   |
| Rental expenses                                   | <b>4,784</b>            | –                       |
| Rental income                                     | <b>1,130</b>            | 6,403                   |
| Transportation and other logistic service fees    | <b>11,476</b>           | –                       |
| Reimbursement of brand advertising cost           | <b>43,947</b>           | –                       |
| Thomson S.A. and its affiliates:                  |                         |                         |
| Sales of finished goods                           | <b>242</b>              | –                       |
| Purchases of raw materials                        | <b>969</b>              | 122,552                 |
| Shared service fee expense                        | <b>41,018</b>           | 119,117                 |
| Interest expense                                  | –                       | 13,417                  |
| Patent royalty expense                            | <b>3,109</b>            | 7,387                   |
| Reimbursement of brand advertising costs          | –                       | 36,652                  |
| Trademark royalty fee                             | –                       | 17,388                  |
| After-sales and related services fee expense      | <b>10,286</b>           | 22,323                  |
| Laboratory service fee expense                    | –                       | 2,141                   |
| Reimbursement of reorganization costs             | –                       | 48,100                  |
| Subcontracting fee expense                        | –                       | 29,225                  |
| Styling service fee income                        | –                       | 2,862                   |
| Logistics management service fee income           | –                       | 1,924                   |

## 19. Related party transactions (continued)

(b) Outstanding balances with related parties

|  | Due from related parties                          |   | Due to related parties                            |   |
|--|---|---|---|---|
|  | 30 June<br>2007<br>(unaudited)<br><i>HK\$'000</i> | 31 December<br>2006<br>(audited)<br><i>HK\$'000</i> | 30 June<br>2007<br>(unaudited)<br><i>HK\$'000</i> | 31 December<br>2006<br>(audited)<br><i>HK\$'000</i> |
| Jointly-controlled entities                        | <b>16,284</b>                                     | 19,709  | <b>106,265</b>                                    | 144,615   |
| The ultimate holding company and<br>its affiliates | <b>64,302</b>                                     | 53,003  | <b>167,837</b>                                    | 285,233   |
| Thomson S.A. and its affiliates                    | -   | 214,546   | -   | 58,392  |



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Overall the Group improved its year-on-year operational performance, recording a narrowed loss of HK\$220 million (versus HK\$1,600 million in the same period in 2006), representing an 86% reduction in the net loss.

The Group persevered in an intensely competitive environment in the PRC to retain its uncontested leadership in that market, while achieving an operating profit of HK\$203 million.

Internationally, the Group began to see benefits from the closure of its loss-making Europe unit and the launch of the new Europe business model. Additionally, the Group continued to realize global operational synergies in serving the North American market. As a result, the Europe and North America business units of the Group improved their performance by lowering the operating loss from HK\$819 million in the first half of 2006, to HK\$259 million in the period concerned.

At the same time, the Strategic OEM ("S-OEM") business pushed through a number of efficiency-enhancing upgrades and achieved healthy returns despite the generally lower margins in this field. In particular, the Group's new Home networking ("HN") products achieved a sales growth of 17% year-on-year and exceeded its targeted gross margin and operating results. Lastly, the Group undertook preventative actions in the Emerging Markets ("EM") unit to streamline operations, business model adjustments and re-focus on profitability and business control in overseas sales companies.

The global TV market continues to be highly competitive, with both local and international companies engaging in heated price wars and investing heavily to roll out new features to capture consumers' attention. Nonetheless, the Group was able to continue to harvest its strategic advantages in the CRT markets while building up its capability and presence in the LCD market space. Thus, despite the fall in revenues of 34% year-on-year, the Group continues to be one of the three largest global TV manufacturers (by volume) today, with an 8% market share.

The Group's advantageous global position in the TV industry enabled it to successfully launch a set of 4.5% Convertible Bonds due in 2012, alongside a Rights Issue in May 2007 (closing on July 12, 2007 and July 11, 2007 respectively). These fundraising exercises raised an aggregate of approximately HK\$1,876 million (HK\$1,095 million for the Bonds and HK\$781 million for the Rights issue (before expenses)). The new funds strengthen the Group's financial position by reducing its short term indebtedness and interest expenses. They also provide needed resources for future investments and upholding of the competitiveness of the Group, technology advancement and capturing of future market opportunities.

## TV Sales – Sales Revenue and Overall Results

For the six months ended 30 June 2007, the Group recorded overall sales revenue of HK\$8,158 million, representing a decrease of 38% compared with the same period in 2006. The decrease in sales revenue was mainly due to the decline in sales in Europe following the closure of the loss-making unit, and the CRT and PTV sales globally. Nevertheless, the Group maintained healthy sales levels in the PRC and underlining strength in this key market.

During the period under review, the Group achieved a gross margin of 18% (1H 2006: 16%), based on operational improvements and the closure of the loss making Europe unit. Further boosting the Group's overall net result were lower Research and Development ("R&D") expenses following reorganization of that division and the start of a cost-reduction effort in the headquarters. These all contributed to produce a lower operating loss of HK\$28 million.

During this period, the Group sold 7,068,000 TV sets. According to iSuppli (2Q 2007), the Group is one of the world's top three TV manufacturers, with an 8% global share by volume.

Sales by region are indicated below:

|                                    | 1H2007<br>(‘000) | 1H2006<br>(‘000) | Change |
|------------------------------------|------------------|------------------|--------|
| TV Unit Sales                      | <b>7,068</b>     | 10,880           | (35%)  |
| The PRC                            | <b>3,332</b>     | 3,735            | (11%)  |
| Europe and North America           | <b>1,153</b>     | 2,700            | (57%)  |
| Emerging Markets and Strategic OEM | <b>2,583</b>     | 4,445            | (42%)  |
| HN Unit Sales                      | <b>7,496</b>     | 6,452            | +16%   |

In line with global trends, the Group continued to strengthen its capability in flat panel and digital TV products, with all new products launched during the period under review falling into one or both of these categories. Overall, high-end TV sets accounted for 30.7% of the total TV revenues, led by favourable results in the PRC and North America.

Finally, the Group undertook efforts to extend its TV products abilities under a distinct HN products group. Based primarily on an OEM model, the HN group sells to leading international consumer electronics companies as a complement to the Group's S-OEM division that sells TV sets. The HN group recorded sales of HK\$1,172 million for the period under review, accounting for 12% of the Group's revenue.

## MANAGEMENT DISCUSSION AND ANALYSIS

### The PRC Market

The PRC market continues to be the single largest source of revenue and profitability for the Group, accounting for 57% of the total Group revenue and returning an operating profit of HK\$203 million. Despite the Group's strong positioning and the market's good growth potential, the PRC has become the site of heated price and feature competition amongst both domestic and international companies.

Prices are falling significantly, especially for premium LCD products. For instance, for the industry bellwether 32 inch LCD TV, the average selling price for foreign brands fell by 19% during the first five months of 2007 and by 11% for domestic brands. During the period under review, the Group's average selling price exhibited a small rise of 5.4%, due mostly to the CRT sales levels of the Group. As more and more of the Group's sales shift to LCD and higher end products which exhibit stronger price declines, the Group's challenge is to continue to find new ways to attract fickle, price-sensitive consumers in a crowded field.

The Group launched 14 new CRT models during the period under review, with the fastest growing segment being Slim CRT products, and 11 new LCD products. The Group continued to devote significant attention to ensuring products to have an advanced, consumer friendly set of features and design, for instance, units included USB 2.0 ports and had recording capability. On the whole, unit shipments of LCD TVs increased by 130% year-on-year, and sales of high-end products accounted for 41% of sales. Sales of CRT Slim TVs continued to grow steadily, with its unit shipment increased by 9.67% year-on-year. This places the Group on the industry forefront as the fastest growing TV brand by segmented product volume growth rate.

In general, the Chinese TV market continues to change at a fast pace, with large cities and the so-called countryside (which includes smaller "Tier 3" and "Tier 4" cities) changing at different paces. In large cities such as Beijing, Shanghai or Shenzhen, CRT sales volumes are declining rapidly: in the first five months of 2007, CRT volumes decreased 18.3%. In the countryside, by contrast, CRT volumes decline less rapidly, by 13%. However, in LCD sales volume, the countryside is actually growing faster than cities and as TCL tends to be stronger in the countryside, these trends will help the Group to further penetrate the LCD market while mitigating the decline of CRT sales.

In the smaller "Tier 3" and "Tier 4" cities, the Group's traditional strength in 32 inch and smaller sizes TVs will be important. Meanwhile the Group will continue outreach to strengthen its channel relationships, especially in fast growing electronic super stores and department stores. All of these factors will be important in the growth spurt leading to the Beijing 2008 Olympics.

## European and North American Markets

Due to the significant reduction in sales in the Europe region, TV shipment from Europe and North America declined year-on-year by 57% to 1,153,000 sets; resulting in a sales revenue drop by 68% to HK\$1,933 million. However, the overall operating loss decreased greatly, to a loss of HK\$254 million compared to a loss of HK\$800 million in the same period in 2006, or a decline of 69%. Going forward the Group expects to realize benefits from the realigned operations in North America and a more sustainable business model in Europe.

### European Market

During the period under review, the Group finalized the closure of the loss-making TTE Europe, with that unit filing for judicial liquidation in May 2007. Thus the Group no longer sustains open liabilities from the restructuring begun in October 2006.

More importantly, the Group's new Europe business unit is now launched under the Borderless Centralized Business Model, selling both branded (i.e. "Thomson" or other brands) and OEM sets. The new unit started shipping products to European customers during the first half of 2007, surpassing the initial target of 298,000 sets, with a sales volume of 387,000 sets.

Despite the falling prices, the branded business line achieved a higher margin than previously recorded for the Group in Europe. However, unexpected delays in setting up the new supply chain and various litigations associated with the closure of TTE Europe adversely impacted the mix of branded/OEM sales. As OEM sales are characterized by a lower margin than branded sales, the operating result did not exceed the target. Nevertheless, a streamlined supply chain, greatly reduced overheads, and a core customer base that includes Europe's leading retailers bodes well for the new unit.

The Group also retains its factory in Poland to serve both the new business unit and third-party customers.

### North American Market

North American market is undergoing a rapid shift from CRT market to LCD market. TCL's traditional strength – CRT market is declining faster than industry expectation. In the first half of 2007, the total CRT market had declined by almost 60% while the demand of LCD products had increased by 95% when compared to same period in 2006. As result from the product demand shift, the total number of TV sales had also declined by 7.1%, such shift resulted in decline of average gross margin of North America operation. North America had also made the shift from Analog TV to Digital TV. Since the end of the first quarter, ATSC digital tuner was required for all TV product sold in North America. The shift in ATSC has also created pressure on gross margin due to additional ATSC intellectual property royalty expense provision. Strong price competition is also observed during the shift of CRT market to LCD market.

## MANAGEMENT DISCUSSION AND ANALYSIS

The North America business unit continued to streamline operations amidst a fast changing market, marked by strong price competition and a rapid shift from CRT to flat panel technologies. The North America unit thus realigned how it serves its customers to meet changing market demands and product roll-outs. It also implemented and began to see benefits from the realization of several global operational synergies.

These factors enabled the Group to outperform the CRT market average and increase LCD sales by 149% year-on-year, outpacing industry growth of 95% in this category. A total of 25 new TV products were launched in the first half of 2007, of which 14 were LCD TVs and 11 Digital CRT models. According to Synovate, the Group achieved a 7.4% share of the market by volume and increased its share of the LCD market.

As the market shifts more rapidly towards flat panel products, the Group is also directing its marketing and sales efforts to this category. In the second half of the year, the Group looks to benefit from several key R&D and supply chain projects to lead LCD deliveries.

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

Revenues from EM and S-OEM units were impacted by the under-performance of the EM despite several key strides forward and a small profit contributed by the S-OEM unit. Together, these regions recorded sales revenues of HK\$1,613 million and an overall operating profit of HK\$23 million.

### **Emerging Markets**

Despite rapid growth in the EM in recent years, the Group recognized that certain markets would be better served with adjustments in the Group's business model, which would in turn help to better control risks and increase efficiency. Thus, during the period under review, the Group exerted strong efforts in the EM to re-focus or restructure the sales and marketing operations in certain of its overseas offices. Moreover, the Group also reinforced the focus on profitability as a basis for future growth.

As a result of these efforts, sales revenues fell in the EM and the unit experienced a drop in its operating result. However, the Group maintained its strong showing in traditional Southeast Asia strongholds such as the Philippines, Australia and Vietnam markets, competing well against international leading companies. In Vietnam, the company was ranked number 3 by market share with 13.7% of the market. In the Philippines, the Group was ranked number 4, with a market share of 12.5%. Going forward, the Group will extend sales and marketing efforts to certain new markets with good potential in South America and the Middle East.

## **Strategic OEM**

Until now, growth in the Group's S-OEM operations stemmed primarily from delivering quality CRT TV products at a globally competitive price to leading international brands. With the increasing dominance of LCD in the world's major markets, the Group's challenge is to leverage its strong relationships and OEM skill to capture OEM opportunities in flat panel technologies while remaining the CRT supplier of choice for less developed markets.

In the period under review, the Group achieved a number of breakthroughs which enhance its core advantage in CRT in terms of cost and design. The Group also kicked off its high-end OEM business with the delivery of digital CRT TVs to one of its major clients in the second quarter of 2007. During this period, the Group launched 8 new CRT TV models, of which 2 were for the North American market, 2 were for Eastern European and 4 were for ASEAN markets.

As expected sales volume decreased in the period under review, primarily due to the faster than expected phase-out of CRT products in the USA. In the second half of the year, the team's sales and marketing will focus on winning LCD orders while continually upgrading and enhancing competitiveness in CRT manufacturing.

## **Home networking Business**

In the period under review, the Group successfully leveraged strength in OEM operations to push forward rapid growth in the complementary HN segment of the TV business. As such, this unit experienced strong growth, recording a 17% rise in sales revenue year-on-year, of HK\$1,172 million, on sales to existing and new international customers. Despite an overall average selling price decline of US\$3.65 in the product base, the Group's gross margin did not fall, thereby producing an operating profit of HK\$34 million.

The Group has captured opportunities in this area by focusing production enhancements on the specific needs of a demanding set of MNC customers. As the Group gains traction in this market space, it will be well placed to become a highly cost competitive solution for international groups, even as product prices continue to fall.

The production target of the Group is as follows, export business mainly focus on OEM/ODM business of DVD copyright technology holders; domestic business mainly focus on the high definition DVD player and set top box of TCL brand.

The sales volume of the Group is targeted to reach 14 million sets, and the Group will become one of the largest DVD manufacturers in the world. The Group is now developing technical and production R&D resources on DVD blue-ray techniques, and also devoting into the digital photo frame and portable DVD business, trying to explore the broader high-end market.

## MANAGEMENT DISCUSSION AND ANALYSIS

In order to cope with the global digital TV development and the PRC domestic digital TV shift, the Group started to develop the set top box business since the second half of year 2006. Up till now, more than 10 types of products covering high, medium and low-end had been developed; successfully bid two domestic set top box tenders in Chengdu and Inner Mongolia; and obtained significant orders from An Hui, Ji Lin, Lan Zhou and Xin Jiang etc. The Group will keep on implementing the domestic set top box projects and it is expected that the set top box business will record a dramatic growth in year 2007.

### Research and Development and Manufacturing Operations

During the period under review, the Group continued to progressively implement changes to its supply chain and manufacturing operations in order to increase its price competitiveness, flexibility, and dedication to quality. As a result, the Group optimized its manufacturing footprint to implement high-efficiency LCD production lines in Huizhou and Nanhai, the PRC, while upgrading its plants in Mexico and Poland to optimize the Group's CRT capabilities. At the same time, the Group is also strengthening its strategic partnerships with selected panel suppliers.

The Group's aggregate net R&D spending during the period under review decreased significantly, due to a government grant of approximately HK\$82 million received and one-off events in the realignment of the Group's global R&D network. As such, the Group has reduced staff levels in certain overseas R&D labs and in the PRC and also spun off the Industrial Design unit to be a free-standing entity. Operationally, the focus of R&D efforts is on LCD product development, particularly on building software capability and stabilizing product platforms. Finally, the Group is also simplifying CRT product lines to extract greater cost efficiency in this area.

### OUTLOOK

Going forward, the Group intends to continue to build strength in areas of core competence, including the PRC market overall, OEM CRT and HN businesses, and certain of the EM countries. The Group will continue to seek operational synergies to meet market changes as they come. In the PRC, this includes sales and marketing outreach to Tier 3 and Tier 4 cities and key distribution channels, and pro-active pushing forward the flat panel group to capture more of the LCD market. The Group's leading market position in the PRC remains a key asset to be retained going forward.

In the OEM business, the Group intends to continue to increase operational efficiency especially in its supply chain and product design. The Group intends to hold fast to its position as the global CRT supplier of choice, even as the business evolves to become more competitive in key global markets such as the PRC.

In the international markets, the turnaround in the North American market remains a target for the Group, notwithstanding the highly competitive and rapidly transitioning environment. The Group has made good progress in reducing the loss from North America since acquiring the unit from Thomson, and continued success will require a dedication to execution and rigorous approach to cost. North America remains one of the important pillars of the Group's international operations.

In the EM, the Group will spend the remainder of 2007 in finalizing reorganization measures in certain overseas subsidiaries to build a healthy operating base focusing on maintaining profitability in important growth markets. In turn, the Group will begin to re-build sales in Europe with an eye to profitability and solid relationships with key retailers on the continent.

In its manufacturing and R&D operations, the Group will continue to push through continual upgrades to its R&D, industrial designs, and product planning operations so as to further improve flexibility and delivery time of its supply chain. Manufacturing efficiency has helped the Group to gain size and strength in CRT markets; together with the right technology investments, these will help the Group to gain traction in the LCD markets as well.

Being one of the first PRC-based companies to 'go global' in a significant manner, the Group has already faced a variety of challenges in its home and international markets. A dedication to continual upgrade, a sharp eye for market opportunities, and a core cost competitiveness will help the Group to compete effectively, even as the global television market remains tight.

## **FINANCIAL REVIEW**

### **Significant Investments, Acquisitions and Disposals**

There was no significant investment and acquisition for the six months ended 30 June 2007.

As part of the Group's restructuring and cost-cutting measures, the amicable winding-down of the loss-making Europe Business unit ("EU Business") ended on 24 May 2007 when the legal entity housing that unit – TTE Europe filed a declaration of insolvency to the French Commercial Court. Subsequently, on 29 May 2007, the Court appointed a judicial liquidator to take control of TTE Europe. The liquidation of TTE Europe is not expected to have a material adverse financial impact to the Group.

### **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 lowest cost possible.



## MANAGEMENT DISCUSSION AND ANALYSIS

The cash and bank balance as at the period end amounted to HK\$1,056 million, of which 1% was maintained in Hong Kong dollars, 22% in US Dollars, 63% in Renminbi, 4% in Euro and 10% 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 2006 and there was no asset held under finance lease at the period end.

At the period end, the Group's gearing ratio was 110% which was calculated based on the Group's net borrowing of approximately HK\$1,564 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\$1,427 million.

Subsequent to the balance sheet date and after the completion of the Rights Issue and the Bonds, the outstanding Syndication Loans with an aggregate amount of approximately HK\$1,072 million was repaid in full with the substantial reduction in the Group's short term debts, it is expected that the Group's leverage position will be much improved in the second half of 2007.

### **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 2006.

### **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 22,000 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 135,070,000 shares remained outstanding at the period end.

## OTHER INFORMATION

### DISCLOSURE OF INTERESTS BY DIRECTORS

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO") which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (a) Interests in shares of the Company

| <b>Directors</b> | <b>Capacity</b>  | <b>Number of<br/>Shares held</b> | <b>Approximate<br/>percentage<br/>of issued<br/>share capital<br/>of the Company</b> |
|------------------|------------------|----------------------------------|--|
| Li Dongsheng     | Beneficial owner | 21,988,000                       | 0.56%  |
| Wang Kangping    | Beneficial owner | 100,000                          | 0.003%   |

## OTHER INFORMATION

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

#### SHARE OPTION SCHEMES

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 2007 | Date of grant | Exercise price<br>HK\$ | Exercise period | Price of Company's shares |                       |
|--|-------------------------|------------------|------------------------|-----------------|---------------|------------------------|-----------------|---------------------------|-----------------------|
|  | At 1 January 2007       | Reclassification | Lapsed during the year |                 |               |                        |                 | at grant date *           | at date of exercise * |
| <b>Directors</b>   |                         |                  |                        |                 |               |                        |                 |                           |                       |
| <i>Executive directors</i>   |                         |                  |                        |                 |               |                        |                 |                           |                       |
| Li Dongsheng   |                         |                  |                        |                 |               |                        |                 |                           |                       |
| Tomson   | 5,000,000               | –                | –                      | 5,000,000       | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| Lu Zhongli   | 2,500,000               | –                | –                      | 2,500,000       | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| Wang Kangping  | 1,400,000               | –                | –                      | 1,400,000       | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| Shi Wanwen   | 2,600,000               | –                | –                      | 2,600,000       | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| Yuan Bing  | 330,000                 | –                | –                      | 330,000         | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
|  | 11,830,000              | –                | –                      | 11,830,000      |               |                        |                 |                           |                       |
| <i>Non-Executive director</i>  |                         |                  |                        |                 |               |                        |                 |                           |                       |
| Albert Thomas da Rosa, Junior  | 300,000                 | –                | –                      | 300,000         | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| <i>Independent Non-Executive directors</i>   |                         |                  |                        |                 |               |                        |                 |                           |                       |
| Tang Guliang   | 300,000                 | –                | –                      | 300,000         | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
| Wang Bing @  | 300,000                 | (300,000)        | –                      | –               | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
|  | 900,000                 | (300,000)        | –                      | 600,000         |               |                        |                 |                           |                       |
| <b>Other employees and those who have contributed or may contribute to the Group</b> |                         |                  |                        |                 |               |                        |                 |                           |                       |
|  | 122,690,000             | 300,000          | (350,000)              | 122,640,000     | 31-May-05     | 1.400                  | Note            | 1.410                     | N/A                   |
|  | 135,420,000             | –                | (350,000)              | 135,070,000     |               |                        |                 |                           |                       |

@ Mr. Wang Bing retired as independent non-executive director of the Company on 30 June 2007. The share options of Mr. Wang Bing under the share option schemes were reclassified under "Other employees and those who have contributed or may contribute to the Group".

\* 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*

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) Interests in shares of associated corporations of the Company**

| <b>Directors</b> | <b>Name associated corporation</b>            | <b>Capacity</b>  | <b>Number of shares held</b> | <b>Approximate percentage of issued share capital in associated corporation</b> |
|------------------|---|------------------|------------------------------|---|
| Li Dongsheng     | TCL Corporation                               | Beneficial owner | 121,953,000                  | 4.72%   |
| Li Dongsheng     | TCL Communication Technology Holdings Limited | Beneficial owner | 77,788,800                   | 1.30%   |
| Lu Zhongli       | TCL Corporation                               | Beneficial owner | 19,888,987                   | 0.77%   |
| Wang Kangping    | TCL Communication Technology Holdings Limited | Beneficial owner | 80,000                       | 0.001%  |
| Shi Wanwen       | TCL Corporation                               | Beneficial owner | 2,283,465                    | 0.09%   |
| Yuan Bing        | TCL Communication Technology Holdings Limited | Beneficial owner | 2,116,000                    | 0.04%   |

## OTHER INFORMATION

### (d) Interests in share options of associated corporations of the Company

| Directors     | Name associated corporation                   | Capacity         | Number of shares held | Approximate percentage of issued share capital in associated corporation |
|---------------|---|------------------|-----------------------|--|
| Li Dongsheng  | TCL Communication Technology Holdings Limited | Beneficial owner | 15,454,550            | 0.26%  |
| Lu Zhongli    | TCL Communication Technology Holdings Limited | Beneficial owner | 3,727,275             | 0.06%  |
| Wang Kangping | 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%  |
| Yuan Bing     | TCL Communication Technology Holdings Limited | Beneficial owner | 1,436,364             | 0.02%  |

Save as disclosed above, as at 30 June 2007, none of the Directors and 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 corporation (within the meaning of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

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

As at 30 June 2007, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| <b>Name of Shareholder</b>          | <b>Nature of interest</b>          | <b>Number of Shares held</b> | <b>Approximate percentage of issued share capital of the Company</b> |
|-------------------------------------|------------------------------------|------------------------------|--|
| TCL Corporation<br><i>(Note(a))</i> | Interest of controlled corporation | 1,512,121,289                | 38.74%   |
| Deutsche Bank<br>Aktiengesellschaft | Beneficial Owner                   | 4,500,000                    | 0.12%  |

*Note:*

- (a) TCL Corporation is deemed to be interested in 1,512,121,289 shares held by TCL Industries, its direct wholly owned subsidiary, for the purpose of the SFO.

## OTHER INFORMATION

### (b) Long position in underlying shares of the Company – Derivatives

| <b>Name of Shareholder</b>       | <b>Nature of interest</b> | <b>Number of Shares held</b>      |
|----------------------------------|---------------------------|-----------------------------------|
| Deutsche Bank Aktiengesellschaft | Beneficial Owner          | 2,052,750,000<br><i>(Note(b))</i> |

*Note:*

- (b) The Company has received from Stark Investments (Hong Kong) Limited, Stark Master Fund, Ltd and Centar Investments (Asia) Ltd notices pursuant to s.324 of Part XV of the SFO notifying that they have long position of derivatives interest in 977,500,000 shares, 578,680,000 shares and 254,150,000 shares respectively.

Save as disclosed above, there is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the Latest Practicable Date, had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV 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.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, throughout the period ended 30 June 2007, complied with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules"), save for the deviation from code provision A.2.1 of the CG Code because Mr. Li Dongsheng has taken up the roles of both the Chairman and the Managing Director of the Company.

## **POST BALANCE SHEET EVENTS**

- (i) The Rights Issue became unconditional on 11 July 2007 and the Company raised a total of approximately HK\$781 million (before expenses) by the issue of approximately 1,951 million Rights Shares. Further details of the Rights Issue are set out in the Company's announcements dated 15 May 2007 and 12 July 2007 and circular dated 5 June 2007.
- (ii) The completion of the Purchase Agreement took place and the Bonds were issued on 12 July 2007. Further details of the issue of the Bonds are set out in the Company's announcements dated 21 May 2007 and 12 July 2007.
- (iii) Outstanding Syndication Loans with an aggregate amount of approximately HK\$1,072 million was fully repaid on 12 July 2007.
- (iv) To uphold the morale of the senior management and employees and to provide competitive remuneration packages, the Company granted options for subscribing for a total number of 241,662,299 shares of the Company at the exercise price of HK\$0.63 on 4 July 2007 to various employees and person who have been playing key roles in developing the Group.



## OTHER INFORMATION

### **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's consolidated financial statements for the period ended 30 June 2007, including the accounting principles adopted by the Group, with the Company's management.

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

The Company has adopted a model code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions as set out in Appendix 10 of the Listing Rules.

On behalf of the Board

**LI Dongsheng**

*Chairman*

Hong Kong, 7 August, 2007