



# TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## TCL多媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

### RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

#### FINANCIAL HIGHLIGHTS

*Unaudited results for the nine months ended 30 September*

	<b>2008</b>	2007	Change
	<b>(HK\$M)</b>	(HK\$M)	
Turnover	<b>19,105</b>	14,967	+27.6%
Gross profit	<b>2,987</b>	2,591	+15.3%
EBITDA	<b>487</b>	170	+186.5%
Profit/(loss) before the effects of convertible bonds	<b>65</b>	(254)	N/A
Effects of convertible bonds:			
– Fair value gain on the derivative component of convertible bonds	<b>375</b>	287	+30.7%
– Loss on early redemption of convertible bonds	<b>(611)</b>	–	N/A
– Interest on convertible bonds	<b>(72)</b>	(31)	N/A
Profit/(loss) for the period	<b>(243)</b>	2	N/A
Loss attributable to equity holders of the parent	<b>(255)</b>	(2)	N/A
Basic loss per share (HK cents)	<b>(3.93)</b>	(0.05)	N/A

## **HIGHLIGHTS**

- Maintained solid growth in much tougher markets
  - Turnover increased by 35.4% year-on-year to HK\$7,389 million for 3Q 2008
  - Profit before tax and the effects of convertible bonds for the three months ended 30 September 2008 was HK\$2 million (3Q 2007: HK\$12 million Loss)
- LCD TV sales volume increased by 263.8% year-on-year; LCD TV sales now account for 58.2% of total TV turnover
- Continued to lead the PRC market, with 16.6% market share
- Strengthened cost control: fixed costs remained constant as turnover grew significantly
- Maintained healthy balance sheet and sound cash position: current ratio was 1.1 with 0% gearing. The Group retained HK\$2,130 million cash on hand
- In order to cope with global economic slowdown, the Group streamlined inventory management and adapted key clients strategy

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 nine months ended 30 September 2008 with comparative figures for the previous period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	9 months ended 30 September		3 months ended 30 September	
		2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000	2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000
TURNOVER	2	<b>19,105,085</b>	14,966,808	<b>7,389,127</b>	5,455,989
Cost of sales		<b>(16,117,635)</b>	(12,376,292)	<b>(6,265,068)</b>	(4,496,780)
Gross profit		<b>2,987,450</b>	2,590,516	<b>1,124,059</b>	959,209
Other revenue and gains		<b>114,674</b>	99,439	<b>(19,924)</b>	38,181
Selling and distribution costs		<b>(2,073,620)</b>	(1,993,884)	<b>(759,813)</b>	(733,844)
Administrative expenses		<b>(619,286)</b>	( 596,715)	<b>(275,205)</b>	(192,401)
Research and development costs		<b>(120,976)</b>	( 99,266)	<b>(17,330)</b>	(54,275)
Other operating expenses		<b>(1,982)</b>	(65,637)	<b>(1,886)</b>	8,969
		<b>286,260</b>	(65,547)	<b>49,901</b>	25,839
Finance costs excluding interest on convertible bonds		<b>(115,695)</b>	(129,643)	<b>(49,733)</b>	(39,529)
Share of profits and losses of:					
Jointly-controlled entities		<b>(2,045)</b>	(907)	<b>1,685</b>	1,417
Associates		<b>1,376</b>	1,127	<b>720</b>	409
		<b>169,896</b>	(194,970)	<b>2,573</b>	(11,864)
Fair value gain on the derivative component of convertible bonds	7	<b>374,514</b>	287,469	-	287,469
Loss on early redemption of convertible bonds	7	<b>(610,883)</b>	-	-	-
Interest on convertible bonds	7	<b>(72,246)</b>	(31,369)	-	(31,369)
PROFIT/ (LOSS) BEFORE TAX		<b>(138,719)</b>	61,130	<b>2,573</b>	244,236
Tax	3	<b>(103,859)</b>	(58,780)	<b>(51,551)</b>	(24,949)
PROFIT/ (LOSS) FOR THE PERIOD		<b>(242,578)</b>	2,350	<b>(48,978)</b>	219,287
ATTRIBUTABLE TO:					
Equity holders of the parent		<b>(255,359)</b>	(2,037)	<b>(57,166)</b>	217,562
Minority interests		<b>12,781</b>	4,387	<b>8,188</b>	1,725
		<b>(242,578)</b>	2,350	<b>(48,978)</b>	219,287
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	5				
Basic		<b>HK(3.93) cents</b>	HK(0.05) cents		
Diluted		<b>N/A</b>	N/A		

## CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2008 (unaudited) <i>HK\$'000</i>	31 December 2007 (audited) <i>HK\$'000</i>
<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	1,627,192	1,667,073
Prepaid land lease payments	68,573	75,539
Goodwill	119,638	119,638
Other intangible assets	37,457	42,532
Interests in jointly-controlled entities	119,070	115,571
Interests in associates	84,999	78,595
Available-for-sale investments	1,008	1,008
Prepaid royalty	107,749	189,235
Deferred tax assets	15,122	16,852
	<b>2,180,808</b>	<b>2,306,043</b>
<b>CURRENT ASSETS</b>		
Inventories	3,275,460	3,229,362
Trade receivables	3,853,838	2,734,187
Bills receivable	603,860	613,408
Prepayment, deposits and other receivables	593,843	786,336
Tax recoverable	4,632	15,196
Cash and bank balances	2,130,108	1,095,341
	<b>10,461,741</b>	<b>8,473,830</b>
<b>CURRENT LIABILITIES</b>		
Trade payables	4,890,939	4,136,749
Bills payable	703,026	272,988
Tax payable	136,021	95,963
Other payables and accruals	1,441,910	1,483,901
Provisions	237,491	349,914
Interest-bearing bank and other borrowings	1,762,791	913,525
Due to immediate holding company	23,018	–
Due to ultimate holding company	77,680	220,359
	<b>9,272,876</b>	<b>7,473,399</b>
<b>NET CURRENT ASSETS</b>		
	<b>1,188,865</b>	<b>1,000,431</b>
<b>TOTAL ASSETS LESS</b>		
<b>CURRENT LIABILITIES</b>	<b>3,369,673</b>	<b>3,306,474</b>

		<b>30 September 2008 (unaudited) HK\$'000</b>	31 December 2007 (audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>3,369,673</b>	3,306,474
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	6	–	131,041
Liability component of convertible bonds	7	–	506,698
Derivative component of convertible bonds	7	–	374,514
Deferred tax liabilities		<b>12,040</b>	13,772
Pensions and other post-employment benefits		<b>17,395</b>	16,875
Total non-current liabilities		<b>29,435</b>	1,042,900
Net assets		<b>3,340,238</b>	2,263,574
EQUITY			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	8	<b>1,022,167</b>	583,772
Reserves		<b>2,197,338</b>	1,575,284
Minority interests		<b>3,219,505</b>	2,159,056
		<b>120,733</b>	104,518
Total equity		<b>3,340,238</b>	2,263,574

*Notes:*

**1. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and the basis of preparation adopted in the preparation of these financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2007.

## 2. SEGMENT INFORMATION

The following table presents revenue and profit/(loss) information for the Group's business segments for the nine months ended 30 September 2008 and 2007.

	Segment Revenue		Segment Results	
	2008 (unaudited) <i>HK\$'000</i>	2007 (unaudited) <i>HK\$'000</i>	2008 (unaudited) <i>HK\$'000</i>	2007 (unaudited) <i>HK\$'000</i>
Television	<b>16,432,277</b>	12,519,868	<b>286,602</b>	1,460
Home Networking	<b>2,193,481</b>	2,186,037	<b>100,061</b>	82,967
Others	<b>479,327</b>	260,903	<b>(20,975)</b>	(5,557)
	<b><u>19,105,085</u></b>	<b><u>14,966,808</u></b>	<b>365,688</b>	78,870
Bank interest income			<b>10,367</b>	16,104
Corporate expenses			<b>(89,795)</b>	(160,521)
Finance costs excluding interest on convertible bonds			<b>(115,695)</b>	(129,643)
Share of profits and losses of:				
Jointly-controlled entities			<b>(2,045)</b>	(907)
Associates			<b>1,376</b>	1,127
			<b>169,896</b>	(194,970)
Fair value gain on the derivative component of convertible bonds			<b>374,514</b>	287,469
Loss on early redemption of convertible bonds			<b>(610,883)</b>	–
Interest on convertible bonds			<b>(72,246)</b>	(31,369)
Profit/(loss) before tax			<b>(138,719)</b>	61,130
Tax			<b>(103,859)</b>	(58,780)
Profit/(loss) for the period			<b><u>(242,578)</u></b>	<b><u>2,350</u></b>

### 3. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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>Nine months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Current – Hong Kong	<b>13,886</b>	6,215
Current – Elsewhere	<b>90,000</b>	53,985
Deferred	<b>(27)</b>	(1,420)
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Total tax charge for the period	<b>103,859</b>	58,780
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### 4. DIVIDEND

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

### 5. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2008</b>	2007
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	<b>(255,359)</b>	(2,037)
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**Number of shares**  
**Nine months ended**  
**30 September**  
**2008**                      2007

**Shares**

Weighted average number of ordinary shares in issue less shares held for share award scheme during the period used in basic and diluted loss per share calculation	<b><u>6,491,995,520</u></b>	<b><u>4,474,812,786</u></b>
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The share options outstanding during the periods ended 30 September 2008 and 2007 and the convertible bonds outstanding during the period ended 30 September 2007 had an anti-dilutive effect on the basic loss per share and were therefore ignored in the calculation of diluted loss per share.

The amounts of diluted loss per share for the periods ended 30 September 2008 and 2007 have not been disclosed, as the share options and convertible bonds during the periods had an anti-diluted effect on the basic loss per share for these periods.

**6. INTEREST-BEARING BANK AND OTHER BORROWINGS**

	<b>30 September 2008 (unaudited) HK\$'000</b>	31 December 2007 (audited) HK\$'000
<b>Current</b>		
Bank loans – unsecured	386,231	226,300
Advances from banks as consideration for Factored Receivables	1,085,101	610,306
Trust receipt loans – unsecured	42,414	76,919
Loan from an associate	249,045	–
	<b>1,762,791</b>	913,525
<b>Non-current</b>		
Loan from an associate	–	131,041
	<b><u>1,762,791</u></b>	<b><u>1,044,566</u></b>

*Note:* As at 30 September 2008, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

## 7. CONVERTIBLE BONDS

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 to be due in 2012 (the “Bonds”) with an aggregate principal amount of US\$140 million (equivalent to approximately HK\$1,091 million). The completion of the Purchase Agreement took place and the Bonds were issued on 12 July 2007.

Principal terms of the Bonds are as follows:

- (i) Bondholders may convert at any time from 30 trading days after the closing date up to the closing of business on the maturity date at the initial conversion price of HK\$0.40. As set out in the Company’s announcement dated 16 August 2007, the conversion price had been adjusted from the initial conversion price of HK\$0.40 per share to HK\$0.65 per share with effect from 16 August 2007 pursuant to the terms and conditions of the Bonds;
- (ii) On or at any time after the 2nd anniversary date of the closing date and prior to the maturity date, the Company may redeem the Bonds in whole at the principal together with 37.5% of redemption interest and the 4.5% coupon interest (“the Early Redemption Amount”) provided the closing price for each of any 20 trading days falling within a period of 30 consecutive trading days is at least 130% of the conversion price in effect on such trading day, or at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled;
- (iii) Bondholders shall have the right to require the Company to redeem all or some of their Bonds at the Early Redemption Amount in the event that the closing price for each of any 20 trading days falling within a period of 30 consecutive trading days is at least 30 % below the conversion price in effect on such trading day; and
- (iv) Unless previously redeemed, converted or purchased and cancelled, each Bond shall be redeemed at 137.50% of its principal amount on the fifth anniversary of the issue date;
- (v) The Bonds bear interest at the rate of 4.5% per annum (“coupon rate”) on the principal amount outstanding. The interest will be payable by the Company quarterly in arrears; and
- (vi) The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding and (2) the interest accrued.

The proceeds from the issue of the Bonds on 12 July 2007 of US\$140 million (equivalent to approximately HK\$1,091 million) were split into the liability and the derivative components. On issuance of the Bonds, the fair value of the derivative components is determined using an option pricing model and this amount is carried as a derivative component of the Bonds until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component of the Bonds, net of transaction costs, and is carried as a liability on the amortized cost basis until extinguished on conversion or redemption. The fair value of the derivative component is remeasured as at each balance sheet date and any gains or losses arising from changes in fair value are recognized in the income statement.

On 25 March 2008, one of the early redemption events occurred, namely, the closing price for each of any of the 20 trading days falling within a period of 30 consecutive trading days was at least 30% below the conversion price of HK\$0.65 per share. In compliance with the relevant terms and conditions of the Bonds, the Company issued a notice on 8 April 2008 to inform all bondholders of the occurrence of the abovementioned redemption event, and their rights to request the Company to redeem all or some of their Bonds at the Early Redemption Amount, as well as the procedures in relation thereto. The Company received notices of request from all the bondholders requesting the Company to redeem the Bonds at the Early Redemption Amount of an aggregate amount of approximately US\$150.9 million (approximately HK\$1,176,295,680). The Company settled the payment of the above early redemption amount in the amount of US\$94.7 million (approximately HK\$738,205,440) and US\$56.2 million (approximately HK\$438,090,240) on 6 June 2008 and 20 June 2008, respectively, out of the Subscription monies received from the Subscribers in the amount of HK\$1,206,269,010 under the Subscription Agreements.

The Bonds that have been split into the derivative and the liability components are analysed as follows:

	<b>Liability component (unaudited) HK\$'000</b>	<b>Derivative component (unaudited) HK\$'000</b>	<b>Total (unaudited) HK\$'000</b>
As at 1 January 2008	506,698	374,514	881,212
Fair value gain on the derivative component of convertible bonds	–	(374,514)	(374,514)
Loss on early redemption of convertible bonds	610,883	–	610,883
Interest expenses	72,246	–	72,246
Interest paid	(22,122)	–	(22,122)
Foreign exchange difference	244	–	244
Redeemed during the period	(1,167,949)	–	(1,167,949)
As at 30 September 2008	<u>–</u>	<u>–</u>	<u>–</u>

Further details of the early redemption are set out in the circulars of the Company dated 27 June 2008 and 31 July 2008.

In respect of the redemption of the Bonds and for the purpose of illustration only, amounts denominated in US\$ have been translated into HK\$ at the rate of US\$1 : HK\$7.7952.

## 8. SHARE CAPITAL

	<b>30 September 2008 (unaudited) HK\$'000</b>	31 December 2007 (audited) HK\$'000
Authorized: 22,000,000,000 (31 December 2007: 22,000,000,000) shares of HK\$0.10 each	<b><u>2,200,000</u></b>	<b><u>2,200,000</u></b>
Issued and fully paid: 10,221,674,345 (31 December 2007: 5,837,715,590) shares of HK\$0.10 each	<b><u>1,022,167</u></b>	<b><u>583,772</u></b>

During the period, the Company repurchased its own shares on the Stock Exchange as follows:

Transaction Dates	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate cost Paid HK\$'000	Transaction cost HK\$'000	Total consideration HK\$'000
January 2008	1,372,000	0.455	0.390	614	5	619
March 2008	1,102,000	0.340	0.335	369	5	374
	<b><u>2,474,000</u></b>			<b><u>983</u></b>	<b><u>10</u></b>	<b><u>993</u></b>

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

On 30 May 2008, the Company entered into the subscription agreements (the "Subscription Agreements") with T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), its concerted parties and a number of other investors (collectively the "Subscribers"), pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue such number of new shares of the Company (the "Subscription Shares") at the subscription price (the "Subscription Price") as defined below for an aggregate

amount of HK\$1,206,269,010 (the “Subscription”), the aggregate investment amount paid by the Subscribers as deposit for the Subscription. The Subscription Price was fixed at HK\$0.275, which was equal to 15% discount to the average closing price of approximately HK\$0.324 per share of the Company as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for 10 trading days immediately after the date of the announcement of the Company dated 6 June 2008, namely, from 10 June 2008 to 23 June 2008. Accordingly, the Subscribers and T.C.L. Industries are entitled to allotment of 4,386,432,755 Subscription Shares under the Subscription Agreements.

Upon completion of the Subscription, the interests held by T.C.L. Industries and parties acting in concert with it will increase from 41.418% to 66.558% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares under the Subscription Agreements, representing an increase in their shareholdings in the Company by more than 2%, T.C.L. Industries and parties acting in concert with it are therefore, in the absence of the whitewash waiver, obliged to make a mandatory general offer for all the shares of the Company not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code. T.C.L. Industries has applied to the Executive for the whitewash waiver pursuant to Note 1 on Dispensation from Rule 26 of the Hong Kong Takeovers Code. The Subscription and the whitewash waiver in relation thereto are subject to, among other things, the approval of the independent shareholders by way of poll at an extraordinary general meeting of the Company (“EGM”).

At the EGM held on 15 August 2008, more than 50% of the valid votes cast were in favour of the resolution on (i) approving, confirming and ratifying the Subscription Agreements and Subscription again; (ii) approving the whitewash waiver in respect of the Subscription; and (iii) authorizing the issue of the Subscription Shares and the resolution was duly passed as an ordinary resolution. The resolution was passed in the EGM on 15 August 2008 and as a result of the completion of the Subscription Agreements, the Subscription monies received was treated as capital on 21 August 2008.

For details of the Subscription Agreements, please refer to the announcements of the Company dated 6 June 2008, 24 June 2008, 15 July 2008, 29 July 2008 and 15 August 2008 respectively and the circulars of the Company dated 27 June 2008 and 31 July 2008.

## **BUSINESS REVIEW**

For the three months ended 30 September 2008, amidst a noticeable deterioration in the global economy, the Group successfully maintained a steady expansion of sales, particularly LCD TV sales, and intensified efforts to upgrade its operations to achieve a more robust business model. Even though uncertainties in the global financial markets and developed economies may have an impact on the Group's sales and results going forward, the long-term outlook for the PRC television market remains sound.

Despite significant setbacks in demand in international markets, the Group's successfully increased turnover for the third quarter 2008 to HK\$7,389 million, a 35.4% increase compared to the same period in 2007. LCD TV sales now account for 58.2% of total TV turnover, as the Group makes steady progress towards becoming a leading player in global LCD TV markets. During this quarter, the Group also implemented a series of process improvements which enhanced operational efficiency and improved inventory management.

These developments enabled the Group to maintain its performance improvement during year 2008. For the nine months ended 30 September 2008, the Group recorded a profit before the effects of convertible bonds of HK\$65 million, compared to a loss of HK\$254 million during the same period in 2007. EBITDA increased 186.5% to HK\$487 million, capitalizing on the Group's strengthened operations.

Unaudited sales volume by region for the three months ended 30 September is indicated below:

	<b>2008</b> ( <i>'000 Sets</i> )	2007 ( <i>'000 Sets</i> )	<b>Change</b>
<b>LCD TV</b>	<b>1,175</b>	323	<b>+263.8%</b>
– PRC	329	219	+50.2%
– Overseas	846	104	+713.5%
<b>CRT TV</b>	<b>3,021</b>	3,542	<b>(14.7%)</b>
– PRC	1,636	1,514	+8.1%
– Overseas	1,385	2,028	(31.7%)
<b>Total TV unit sales</b>	<b>4,196</b>	3,865	<b>+8.6%</b>
<b>DVD products unit sales</b>	<b>5,204</b>	6,782	<b>(23.3%)</b>

### TV Sales

The positive momentum from the first two quarters continued to gather strength. During the third quarter, the Group sold a total of 4,196,000 TV sets, an increase of 8.6% compared to the same period in 2007. In line with the market trends, the Group increased LCD TV sales volume to 1,175,000 sets, representing a 263.8% year-on-year increase and accounted for 28.0% of total TV sales volume for the third quarter. During the third quarter, the Group sold 3,021,000 CRT TV sets, a slight decrease of 14.7% versus last year.

Major achievements for the period under review include the launch of the X9 model LCD TV, designed in conjunction with the leading global design firm IDEO in September. Through improved quality control, cost reduction, technological upgrades and enriched product features, the Group has maintained its competitiveness and is perceived as one of the top world brands.

### The PRC Market

The Group sold 1,965,000 TV sets, of which 329,000 sets were LCD TVs in the PRC during the three months ended 30 September 2008, maintaining its position as market leader. According to the Ministry of Information Industry (“MII”), the overall market share of the Group is 16.6%. LCD TV remained the growth driver for the period with a year-on-year unit sales increase of 50.2%. Turnover for the PRC market increased 32.1% to HK\$3,272 million, accounting for 51.4% of the Group’s total TV turnover.

As more competitors have entered the PRC market during the past nine months, price competition has intensified which, together with the Group’s sale of more LCD TV, put pressure on margins. As a result, the Group continues to refine marketing plans and increase industry partnerships to ensure its competitiveness in this important market.

## **Overseas Markets**

During the third quarter, the Group's European business unit continued to expand its presence in Russia and Eastern Europe, and to capture specific market opportunities in France. The Group achieved turnover of HK\$279 million, an increase of 22.9% year-on-year, with LCD TV sales volume increasing 441.7% compared to the same period last year. LCD TV now account for 53.7% of total TV sales volume in Europe, up from 5.6% in the same period last year. Going forward, the Group will launch MPEG4 integrated products which will help improve its position in France and other key markets in Europe.

Despite a recessionary consumer environment and the ongoing credit crisis affecting North American markets, the Group's North American business unit increased TV sales volume by 48.0% year-on-year, largely due to fast growing demand for LCD TV.

Despite a softening of demand for CRT TV in emerging markets, the Group maintained overall sales volume in the emerging markets, selling 821,000 TV sets in total. Although turnover during the third quarter decreased 9.3% to HK\$466 million, the Group's increased expense control enabled it to significantly reduce costs, by 28.0% compared with same period last year.

During the third quarter, the Group's OEM operation began selling TV sets from its Poland factory to a key international client. It has also confirmed the product range with a key client for 2009.

## **Home Networking Products**

During the third quarter, the turnover of the Group's home networking products was HK\$897 million, based on sales of 5,204,000 sets. Although turnover was slightly lower than the same period in 2007 due to softening demand in advanced economies, operating profit for the third quarter grew, due to declines in raw material costs and the Group's efforts to streamline operations and economies of scale. Demand for Blu-Ray DVD players in the US remains strong, a good sign that similar trends will develop in other advanced industrial markets.

## **R&D and Manufacturing Operations**

The Group's recent research and development initiatives have focused on enhancing product features, functionalities and energy saving capabilities, with the aim of increasing customer satisfaction and expanding market share. The Group has also launched an analog/digital integrated TV and developed a camera TV.

## **OUTLOOK**

Due to the sluggish global economic environment, the price of LCD TV has dropped more than expected. By focusing on operational efficiencies, economies of scale, cost control and brand value, the management believes that its move into LCD TV will pay off in the medium and longer term.

In the PRC, increasing numbers of competitors with the financial resources necessary to withstand substantial price competition have remained in the market. As such, the Group is seeking more sales opportunities in 3rd and 4th tier cities as well as in department and chain stores to further expand its market share.

In Europe, North America and Emerging Markets, the Group will closely monitor the economic crisis and its effects on local consumer markets. Growth still looks steady in certain areas in Europe (e.g. Eastern Europe and Russia), where the Group is active. Also, the fourth quarter is the holiday peak season which should ease the impact of the negative financial environment.

Amidst the economic uncertainties, the Group is determined to stay the course in streamlining its business, while paying extra attention to costs. The Group is dedicated to expanding its leadership position and bringing long-term returns to shareholders.

## **FINANCIAL REVIEW**

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

There was no significant investment, acquisition and disposal for the period ended 30 September 2008.

### **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.

The cash and bank balance as at the period end amounted to HK\$2,130,108,000, of which 1% was maintained in Hong Kong dollars, 24% in US dollars, 70% in Renminbi, 2% in Euro and 3% 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 2007 and there was no asset held under finance lease at the period end.

At the period end, the Group's gearing ratio was 0% since the Group's net borrowing was nil (as the cash and bank balances of HK\$2,130,108,000 was higher than the total interest-bearing borrowings of HK\$1,863,489,000).

## **Pledge of Assets**

As at 30 September 2008, none of the Group's assets were pledged to secure general banking facilities granted to the Group.

## **Capital Commitments and Contingent Liabilities**

On 11 June 2008 and 19 June 2008, the mandatory liquidator of TTE Europe SAS and TTE Polska Sp. z o.o (subsidiaries of the Group which had been deconsolidated in year 2007) demand the Company to pay approximately Euro 1.3 million (approximately HK\$15 million) and approximately Euro 2.4 million (approximately HK\$29 million) respectively (for the purpose of illustration only, amounts denominated in Euro have been translated into HK\$ at the rate of Euro1 : HK\$11.9127).

The directors, based on the advice from the Group's legal counsels, believe that the Group has a valid defense against the claims and, accordingly, has not provided for any liability arising from the claims.

Except for the above-mentioned claims, there was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2007.

## **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. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

## **Employee and Remuneration Policy**

The Group had a total of 29,955 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 the Company's 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 539,680,986 shares remained outstanding at the period end.

## **PURCHASES, SALE OR REDEMPTION OF SHARES**

During the period under review, the Company repurchased 2,474,000 shares on the Stock Exchange at an aggregate price of HK\$983,000. The share buyback reflected management's confidence in the future development of the Group's business. Furthermore, it also enhanced earnings per share of the Company.

Pursuant to the rules of the share award scheme adopted by the Company on 6 February 2008, the Company purchased from the market a total of 15,298,000 shares being the awarded shares. The total amount paid to acquire such shares during the period was about HK\$5,706,000.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company had not, throughout the period ended 30 September 2008, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's consolidated financial statements for the nine months period ended 30 September 2008, 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.

On behalf of the Board  
**LI Dongsheng**  
*Chairman*

Hong Kong, 28 October 2008

*As at the date of this announcement, the Board comprises Li Dongsheng, Leong Yue Wing, Yuan Bing, Shi Wanwen, Wang Kangping and Lu Zhongli as executive directors, Albert Thomas da Rosa, Junior as non-executive director and Tang Guliang, Robert Maarten Westerhof and Wu Shihong as independent non-executive directors.*