

The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

Results for the six months ended 30 June

| | 2009 <i>(HK\$M)</i> | 2008 <i>(HK\$M)</i> | Change |
|--|-------------------------------|------------------------|--------|
| Turnover | 11,391 | 11,716 | (2.8%) |
| Gross profit | 2,083 | 1,863 | +11.8% |
| Operating profit | 273 | 236 | +15.7% |
| Effects of convertible bonds | – | (308) | N/A |
| Profit/(loss) attributable to equity | | | |
| holders of the parent | 143 | (198) | N/A |
| Basic earnings/(loss) per share (HK cents) | 14.04 | (34.02) | N/A |

HIGHLIGHTS

- Profit attributable to equity holders of the parent achieved a turnaround in the first half of 2009 to HK\$143 million profit, including an unaudited gain on disposal of a subsidiary in Wuxi amounting to HK\$45 million, as compared with HK\$198 million loss in the first half of 2008; Operating profit increased by 15.7% year-on-year to HK\$273 million in the first half of 2009 as compared with HK\$236 million in the first half of 2008
- Sales volume of LCD TVs continued to grow rapidly, increased by 93.0% year-on-year to 2.93 million sets
- The Group retained market leadership in the PRC TV market with 17.4% market share in the first quarter of 2009 (Source: Displaysearch)
- Gross profit reached HK\$2,083 million in the first half of 2009, representing 11.8% growth year-on-year as compared with HK\$1,863 million in the first half of 2008
- The Group maintained solid financial position; cash and bank balance as at 30 June 2009 was HK\$2,010 million
- The PRC Government continued to implement favorable policies on consumer electronic industry as part of its economy stimulus plans, including raising the subsidy cap of the “Household Appliances Subsidy Scheme” to RMB3,500, introducing the “Home Appliances Replacement Scheme” and the “Promotion of Energy Efficient Appliances ”
- The Group’s overseas business continued to improve with optimized cost structure after successful operational restructuring

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 2009 with comparative figures for the previous period as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | <i>Notes</i> | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------|--|--|--|--|
| | | 2009 (unaudited) <i>HK\$'000</i> | 2008 (unaudited) <i>HK\$'000</i> | 2009 (unaudited) <i>HK\$'000</i> | 2008 (unaudited) <i>HK\$'000</i> |
| TURNOVER | 4 | 11,391,350 | 11,715,958 | 6,377,040 | 6,215,612 |
| Cost of sales | | (9,307,924) | (9,852,567) | (5,203,946) | (5,367,672) |
| Gross profit | | 2,083,426 | 1,863,391 | 1,173,094 | 847,940 |
| Other revenue and gains | 5 | 137,450 | 134,598 | 99,851 | 84,485 |
| Selling and distribution costs | | (1,401,211) | (1,313,807) | (801,343) | (569,667) |
| Administrative expenses | | (391,164) | (344,081) | (200,936) | (171,425) |
| Research and development costs | | (101,824) | (103,646) | (48,782) | (52,134) |
| Other operating expenses | | (53,259) | (96) | (34,955) | 117 |
| | | 273,418 | 236,359 | 186,929 | 139,316 |
| Finance costs (excluding finance costs on convertible bonds) | 6 | (43,938) | (65,962) | (18,216) | (38,029) |
| Share of profits and losses of: | | | | | |
| Jointly-controlled entities | | (6,610) | (3,730) | (3,505) | 1,800 |
| Associates | | 1,802 | 656 | 715 | 574 |
| | | 224,672 | 167,323 | 165,923 | 103,661 |

| | Notes | Six months ended 30 June | | Three months ended 30 June | |
|---|-------|-----------------------------|-------------------------|----------------------------|-------------------------|
| | | 2009 | 2008 | 2009 | 2008 |
| | | (unaudited) HK\$'000 | (unaudited) HK\$'000 | (unaudited) HK\$'000 | (unaudited) HK\$'000 |
| Fair value gain on the derivative component of convertible bonds | | - | 374,514 | - | 219,178 |
| Loss on early redemption of convertible bonds | | - | (610,883) | - | (610,883) |
| Finance costs on convertible bonds | 6 | - | (72,246) | - | (33,072) |
| PROFIT/(LOSS) BEFORE TAX | | 224,672 | (141,292) | 165,923 | (321,116) |
| Tax | 7 | (81,262) | (52,308) | (47,296) | (42,741) |
| PROFIT/(LOSS) FOR THE PERIOD | | 143,410 | (193,600) | 118,627 | (363,857) |
| Exchange differences on translation of foreign operations | | (61,260) | 100,597 | (30,031) | 36,137 |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD | | <u>82,150</u> | <u>(93,003)</u> | <u>88,596</u> | <u>(327,720)</u> |
| PROFIT/(LOSS) ATTRIBUTABLE TO: | | | | | |
| Equity holders of the parent | | 143,302 | (198,193) | 117,612 | (365,793) |
| Minority interests | | 108 | 4,593 | 1,015 | 1,936 |
| | | <u>143,410</u> | <u>(193,600)</u> | <u>118,627</u> | <u>(363,857)</u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO: | | | | | |
| Equity holders of the parent | | 82,231 | (104,419) | 87,539 | (332,392) |
| Minority interests | | (81) | 11,416 | 1,057 | 4,672 |
| | | <u>82,150</u> | <u>(93,003)</u> | <u>88,596</u> | <u>(327,720)</u> |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 10 | | | | |
| Basic | | <u>HK14.04 cents</u> | HK(34.02) cents | | |
| Diluted | | <u>N/A</u> | N/A | | |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,434,997 | 1,390,786 |
| Prepaid land lease payments | | 73,751 | 49,977 |
| Deposit paid for the acquisition of prepaid land lease payments | | – | 3,407 |
| Goodwill | | 119,638 | 119,638 |
| Other intangible assets | | 3,728 | 16,988 |
| Interests in jointly-controlled entities | | 109,218 | 116,048 |
| Interests in associates | | 87,519 | 85,834 |
| Available-for-sale investments | | 66,223 | 1,008 |
| Prepaid royalty | | 27,435 | 82,328 |
| Deferred tax assets | | 23,856 | 17,213 |
| Total non-current assets | | 1,946,365 | 1,883,227 |
| CURRENT ASSETS | | | |
| Inventories | | 3,023,782 | 3,061,568 |
| Trade receivables | 11 | 2,600,846 | 2,111,306 |
| Factored trade receivables | 12 | 1,271,737 | 1,835,241 |
| Bills receivable | | 481,659 | 674,688 |
| Prepayments, deposits and other receivables | | 758,425 | 675,113 |
| Tax recoverable | | 6,537 | 12,529 |
| Pledged deposits | | 212,571 | – |
| Cash and bank balances | | 2,009,878 | 2,157,768 |
| | | 10,365,435 | 10,528,213 |
| Non-current assets classified as held for sale | | – | 205,528 |
| Total current assets | | 10,365,435 | 10,733,741 |
| CURRENT LIABILITIES | | | |
| Trade payables | 13 | 3,913,472 | 4,384,363 |
| Bills payable | | 439,906 | 820,067 |
| Tax payable | | 140,603 | 161,124 |
| Other payables and accruals | | 1,274,738 | 1,399,208 |
| Provisions | | 121,906 | 128,019 |
| Bank advances as consideration for factored trade receivables | 12 | 1,131,872 | 1,665,749 |
| Interest-bearing bank and other borrowings | 14 | 1,188,562 | 488,180 |
| Due to TCL Corporation | 15 | 85,253 | 4,694 |
| Due to T.C.L. Industries | 15 | 117,525 | 117,525 |
| Total current liabilities | | 8,413,837 | 9,168,929 |
| NET CURRENT ASSETS | | 1,951,598 | 1,564,812 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,897,963 | 3,448,039 |

| | | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 3,897,963 | 3,448,039 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 14 | 490,530 | – |
| Deferred tax liabilities | | 10,024 | 11,572 |
| Pensions and other post-employment benefits | | 23,780 | 23,361 |
| Total non-current liabilities | | 524,334 | 34,933 |
| Net assets | | 3,373,629 | 3,413,106 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 16 | 1,021,827 | 1,021,827 |
| Reserves | | 2,286,762 | 2,266,595 |
| | | 3,308,589 | 3,288,422 |
| Minority interests | | 65,040 | 124,684 |
| Total equity | | 3,373,629 | 3,413,106 |

Notes:

1. BASIS OF PREPARATION

These unaudited interim financial statements are in compliance 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”). These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) issued by the HKICPA, 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 2008, except for the adoption of the new HKFRSs as disclosed in note 2 below.

2. IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new interpretations and amendments to HKFRSs for the current period’s financial statements.

| | |
|---|---|
| HKFRS 1 and HKAS 27 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements</i> – <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i> |
| HKFRS 2 Amendments | Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i> |
| HKFRS 8 | <i>Operating Segments</i> |
| HKAS 1 (Revised) | <i>Presentation of Financial Statements</i> |
| HKAS 23 (Revised) | <i>Borrowing Costs</i> |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i> |
| HK(IFRIC)-Int 13 | <i>Customer Loyalty Programmes</i> |
| HK(IFRIC)-Int 15 | <i>Agreements for the Construction of Real Estate</i> |
| HK(IFRIC)-Int 16 | <i>Hedges of a Net Investment in a Foreign Operation</i> |
| Amendments to HK(IFRIC)-Int 9 “Reassessment of Embedded Derivatives” and HKAS 39 “Financial Instruments: Recognition and Measurement” | Embedded Derivatives |
| Amendments to HKFRS 7 “Financial Instruments: Disclosures” | Improving Disclosures about Financial Instruments |

Apart from the above, the Group has also adopted Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* Improvements to HKFRSs contains amendments to HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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

HKFRS 8 *Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reporting segments (see note 4), but has had no impact on the reported results or financial position of the Group.

HKAS 1 (revised) *Presentation of Financial Statements*

HKAS 1 (revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised) has had no impact on the reported results or financial position of the Group.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|--------------------|--|
| HKFRS 1 (Revised) | <i>First-time Adoption of Hong Kong Financial Reporting Standards¹</i> |
| HKFRS 2 Amendments | <i>Group Cash-settled Share-based Payment Transactions³</i> |
| HKFRS 3 (Revised) | <i>Business Combinations¹</i> |
| HKAS 27 (Revised) | <i>Consolidated and Separate Financial Statements¹</i> |
| HKAS 39 Amendment | <i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items¹</i> |
| HK(IFRIC)-Int 17 | <i>Distribution of Non-cash Assets to Owners¹</i> |
| HK(IFRIC)-Int 18 | <i>Transfer of Assets from Customers²</i> |

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for transfer of assets from customers received on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 January 2010.

In addition, improvements to HKFRSs were issued in May 2009 by HKICPA which contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, Appendices to HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to HKAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard.

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

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive Officer ("CEO") in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor standard (HKAS 14 Segment Reporting) requires an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was analysed on the basis of product types. However, information reported to the Group's CEO for the purpose of resource allocation and assessment of performance focuses more specifically on geographical television segments and other product types. The Group's reportable segments under HKFRS 8 are therefore as follows:

- (a) Television segment manufactures and sells television sets and trades related components in:
 - the People's Republic of China market (the "PRC market")
 - the Overseas markets
- (b) Home Networking segment manufactures and sells audio-visual ("AV") products; and
- (c) Others segment comprises information technology and other businesses, including sales of white goods, mobile phones and air conditioners.

Transfer prices between operating segments are on arm's-length basis in a manner similar to transactions with third parties.

Information regarding these segments is presented below. Accounts reported for the prior period has been restated to conform to the requirements of HKFRS 8.

The following table presents revenue and profit/(loss) information for the Group's operating segments for the six months ended 30 June 2009 and 2008.

| | Segment revenue | | Segment results | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2009 | 2008 | 2009 | 2008 |
| | (unaudited) HK\$'000 | (unaudited) HK\$'000 | (unaudited) HK\$'000 | (unaudited) HK\$'000 |
| TV – PRC market | 5,992,719 | 5,045,207 | 312,852 | 268,319 |
| TV – Overseas markets | 3,748,101 | 5,017,835 | (27,155) | (55,650) |
| Home Networking | 1,551,449 | 1,296,093 | 61,271 | 47,803 |
| Others | 99,081 | 356,823 | (31,061) | 1,637 |
| | 11,391,350 | 11,715,958 | 315,907 | 262,109 |
| Bank interest income | | | 5,000 | 7,715 |
| Corporate expenses | | | (47,489) | (33,465) |
| Finance costs (excluding finance costs on convertible bonds) | | | (43,938) | (65,962) |
| Share of profits and losses of: | | | | |
| Jointly-controlled entities | | | (6,610) | (3,730) |
| Associates | | | 1,802 | 656 |
| | | | 224,672 | 167,323 |
| Fair value gain on the derivative component of convertible bonds | | | – | 374,514 |
| Loss on early redemption of convertible bonds | | | – | (610,883) |
| Finance costs on convertible bonds | | | – | (72,246) |
| PROFIT/(LOSS) BEFORE TAX | | | 224,672 | (141,292) |
| Tax | | | (81,262) | (52,308) |
| PROFIT/(LOSS) FOR THE PERIOD | | | 143,410 | (193,600) |

5. OTHER REVENUE AND GAINS

On 7 January 2009, the Group entered into a framework agreement (the “Disposal Agreement”) with Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd., an associate of TCL Corporation (“TCL Corporation”), to dispose of its entire interests in TCL Digital Science and Technology (Wuxi) Company Limited, a 70%-owned subsidiary of the Group, for an aggregate consideration of RMB159,249,312 (equivalent to HK\$180,616,210) after adjustment. The Disposal Agreement was completed on 26 June 2009, gain of approximately HK\$45,333,000 was therefore included in “other revenue and gains”.

6. FINANCE COSTS

| | Six months ended 30 June | |
|--|---------------------------------------|--------------------------------|
| | 2009 | 2008 |
| | (unaudited) <i>HK\$'000</i> | (unaudited) <i>HK\$'000</i> |
| Interest on: | | |
| Bank loans and overdrafts | 38,612 | 49,159 |
| Loan from TCL Corporation | 1,412 | 3,850 |
| Loan from T.C.L. Industries | 384 | 348 |
| Loan from an associate | 4,474 | 4,401 |
| Interest on subscription monies received | – | 8,204 |
| | <hr/> | <hr/> |
| | 44,882 | 65,962 |
| Less: interests on bank loans capitalized | (944) | – |
| | <hr/> | <hr/> |
| Finance costs (excluding finance costs on convertible bonds) | 43,938 | 65,962 |
| Finance costs on convertible bonds: | | |
| Interest on liability component of convertible bonds | – | 72,246 |
| | <hr/> | <hr/> |
| TOTAL | 43,938 | 138,208 |
| | <hr/> <hr/> | <hr/> <hr/> |

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof:

| | Six months ended 30 June | |
|---------------------------------|---------------------------------------|--------------------------------|
| | 2009 | 2008 |
| | (unaudited) <i>HK\$'000</i> | (unaudited) <i>HK\$'000</i> |
| Current – Hong Kong | – | 9,138 |
| Current – Elsewhere | 89,458 | 43,036 |
| Deferred | (8,196) | 134 |
| | <hr/> | <hr/> |
| Total tax charge for the period | 81,262 | 52,308 |
| | <hr/> <hr/> | <hr/> <hr/> |

11. TRADE RECEIVABLES

The majority of the Group's sales in the PRC was 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 and pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks (note 12).

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 receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|----------------------|--|--|
| Current to 90 days | 2,472,290 | 1,944,217 |
| 91 days to 180 days | 63,110 | 64,263 |
| 181 days to 365 days | 41,270 | 53,383 |
| Over 365 days | 24,176 | 49,443 |
| | <u>2,600,846</u> | <u>2,111,306</u> |

12. FACTORED TRADE RECEIVABLES AND BANK ADVANCES AS CONSIDERATION FOR FACTORED TRADE RECEIVABLES

As at 30 June 2009, the Group's trade receivables of approximately HK\$1,271,737,000 (31 December 2008: HK\$1,835,241,000) (the "Factored Receivables") were factored to certain banks under certain receivables purchase agreements. The Group continued to recognize the Factored Receivables in the statement of financial position 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 end of the reporting period.

Accordingly, the advances from the relevant banks of approximately HK\$1,131,872,000 (31 December 2008: HK\$1,665,749,000) received by the Group as consideration for the Factored Receivables at the end of the reporting period were recognized as liabilities.

The entire balance of the Factored Receivables is aged within 90 days. None of the Factored Receivables is either past due or impaired and the Factored Receivables are related to customers with no recent history of default.

13. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

| | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|----------------------|--|--|
| Current to 90 days | 3,803,602 | 4,180,605 |
| 91 days to 180 days | 20,648 | 111,857 |
| 181 days to 365 days | 36,927 | 38,991 |
| Over 365 days | 52,295 | 52,910 |
| | <u>3,913,472</u> | <u>4,384,363</u> |

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

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|---|--|--|
| Bank loans – secured | 212,505 | – |
| Bank loans – unsecured | 1,023,596 | 113,572 |
| Trust receipt loans – unsecured | 129,271 | 125,628 |
| Loans from an associate | 248,505 | 248,980 |
| Loan from an associate of TCL Corporation | 65,215 | – |
| | <u>1,679,092</u> | <u>488,180</u> |
| Bank and other borrowings repayable: | | |
| Within one year | 1,188,562 | 488,180 |
| In the second year | 178,633 | – |
| In the third to fifth year, inclusive | 311,897 | – |
| | <u>1,679,092</u> | <u>488,180</u> |
| Portion classified as current liability | <u>(1,188,562)</u> | <u>(488,180)</u> |
| Non-current portion | <u>490,530</u> | <u>–</u> |

Notes:

- (a) Certain bank loans of the Group are secured by the pledge of certain time deposits of the Group amounting to HK\$212,571,000 (31 December 2008: Nil).
- (b) As at 30 June 2009, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.
- (c) The loan due to the associate of TCL Corporation is secured by certain available-for-sale investments of the Group amounting to HK\$65,215,000 (31 December 2008: Nil), interest bearing at the lending rate offered by the People's Bank of China and repayable on 26 October 2010.

15. DUE TO TCL CORPORATION/T.C.L. INDUSTRIES

T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries") is the direct controlling shareholder of the Company and TCL Corporation is the holding company of T.C.L. Industries.

Certain loan of the Group due to TCL Corporation are secured by the pledge of certain items of property, plant and equipment and prepaid land lease payments, amounting to HK\$96,218,000 (31 December 2008: Nil) and HK\$32,475,000 (31 December 2008: Nil) respectively.

16. SHARE CAPITAL

| | 30 June 2009 (unaudited) HK\$'000 | 31 December 2008 (audited) HK\$'000 |
|---|--|--|
| Authorized: | | |
| 2,200,000,000 shares of HK\$1.00 each (31 December 2008: 22,000,000,000 shares of HK\$0.10 each) | <u>2,200,000</u> | <u>2,200,000</u> |
| Issued and fully paid: | | |
| 1,021,826,634 shares of HK\$1.00 each (31 December 2008: 10,218,266,345 shares of HK\$0.10 each) | <u>1,021,827</u> | <u>1,021,827</u> |

Note:

On 23 January 2009, 10 ordinary shares of HK\$0.10 each of the issued and unissued share capital of the Company were consolidated into 1 ordinary share of HK\$1.00 each. The authorised share capital of the Company remained at HK\$2,200,000,000 but was divided into 2,200,000,000 shares of HK\$1.00 each.

BUSINESS REVIEW

Although the turnover of the Group slightly decreased by 2.8% to HK\$11,391 million for the six months ended 30 June 2009, the gross profit and the gross profit margin increased by 11.8% and 2.4% year-on-year respectively. With the synergy of optimized cost structure and favorable government policies, the Group successfully achieved a turnaround and recorded net profit of HK\$143 million for the period under review. At the same time, operating profit increased by 15.7% year-on-year to HK\$273 million in the first half of 2009 as compared with HK\$236 million in the first half of 2008.

The global economy was recovering gradually from the recession caused by the financial tsunami. However, the business environment and consumer sentiment were adversely impacted by lingering uncertainty, resulting in a slowdown in demand for the consumer electronic industry. At the same time, distributors began to replenish their inventory as they expected a recovery towards the second half of 2009. This had intensified the shortage in LCD panels supply which led to a sharp increase in panel prices. Under the pressure of external crisis and internal challenges, small to medium size TV manufacturers were more vulnerable to risks, leading to further consolidation of the industry. In contrast, the Group and other leading TV manufacturers with advantages in brand, technology, management and financial position had strengthened their market position.

The Group believes opportunities always co-exist with challenges. The Group has successfully leveraged on its strong brand, industry leadership, innovative products and optimized cost structure to expand its LCD TV business amidst the challenging environment due to the financial tsunami. The Group continued to implement strict margin, cost and risk management over each step of the supply chain and inventory control in order to improve operational efficiency and effectiveness to manage its product quality. Meanwhile, the Group has been very cautious in taking new orders as part of its risk control initiatives while aggressively introducing new product lines. On the other hand, the Group consolidated the CRT TV teams into one business unit which led to quicker response to the changes in market environment.

According to statistics released by Displaysearch, TCL has been ranked as the top TV brand in terms of sales volume for six consecutive years in the PRC Market since 2003, and ranked 5th globally with market share of 5% in the first quarter of 2009 in terms of sales volume.

TV Sales

Global LCD TV shipment rebounded strongly as distributors had began to replenish their inventory, according to GfK, sales in unit terms for the first five months of 2009 increased by 40% as compared to the same period last year. For the six months ended 30 June 2009, the Group's LCD TV sales volume grew by 93.0% year-on-year from approximately 1.52 million sets in the first half of 2008 to approximately 2.93 million sets in the first half of 2009, outpacing the average industry growth rate. LCD TV sales volume accounted for approximately 56.0% of the Group's overall TV sales volume as compared to 21.9% of the same period last year, the significant increase indicates that the Group has successfully made its business transition to LCD TV and become one of the leading players in the global market.

During the period under review, the Group reinforced its product lineup by introducing over 80 new models under the P10, F19, M19 and S9 series. The major enhancements including blue laser disc player capability, Natural Light, internet source direct broadcasting and digital photo frame functionalities. Not only did the Group record strong growth in the PRC market, but also recognized increasing orders from the overseas markets, especially larger screen models in North America and MPEG-4 models in Europe. Apart from personal consumer segment, the Group also established a foothold on commercialized usage of its revolutionary 3D LCD TVs, which were installed at Shenzhen Bao'an International Airport and Guangzhou Baiyun International Airport, and were highly acclaimed by the market.

Sales volume by region is indicated below:

| | 1H 2009 <i>('000 sets)</i> | 1H 2008 <i>('000 sets)</i> | Change |
|------------------------------|--------------------------------------|-------------------------------|---------|
| LCD TVs | 2,930 | 1,518 | +93.0% |
| – PRC | 1,591 | 456 | +248.9% |
| – Overseas | 1,339 | 1,062 | +26.1% |
| CRT TVs | 2,305 | 5,407 | (57.4%) |
| – PRC | 1,426 | 2,771 | (48.5%) |
| – Overseas | 879 | 2,636 | (66.7%) |
| Total TV sales volume | 5,235 | 6,925 | (24.4%) |
| AV products | 9,029 | 8,154 | +10.7% |

The PRC Market

The Group's TV sales revenue in the PRC Market for the period under review was HK\$5,993 million, recorded a 18.8% increase as compared with the same period last year. In terms of sales volume, the Group shipped approximately 1.59 million sets of LCD TVs, attaining an increase of 248.9% comparing with the first half of 2008. The strong growth in the PRC Market was largely driven by the market transition of CRT TV to LCD TV and the PRC Government's continuous expansion of the "Household Appliances Subsidy Scheme". With extended demand penetrating into the 3rd and 4th tier cities, small-to-middle sized LCD TVs gained a sizeable share in the market. Benefiting from the Group's strong brand power and competitive product offering, a total of 76 TV products of the Group were approved as the subsidized items during the three phases of bidding.

The raised subsidy cap of the PRC Government's "Household Appliances Subsidy Scheme" policy from RMB2,000 to RMB3,500 in May 2009 further boosts the demand for LCD TVs in the 3rd and 4th tier cities. At the same time, other supportive policies including "Home Appliances Replacement Scheme" and "Promotion of Energy Efficient Appliances" were promulgated to create new demand for LCD TVs and to accelerate transition of LCD TV business, providing ample growth potential for the Group. In response to the growing demand, the Group's LCD TV Integration Plant with annual capacity of 3 million LCD TVs and 2 million of semi-finished LCD kits will commence full operation in September this year. By adopting this vertical integration strategy, the Group will streamline its operational structure and significantly reduce its production costs, such as transportation and packaging expenses, stabilize panel supply while assuring quality. In addition, the Group implements an end-to-end supply chain management to better control the inventory turnover and increases operation efficiency which further enhances price competitiveness.

During the period under review, the Group initiated a large scale spring sales and "Old for New" promotion, which resulted in an increase in sales, market share and brand recognition, and promoted wider adoption of the next generation digital TV. During the Labour Day holiday, the Group launched two core products – internet TV ("MiTV") and blue laser high definition TV which were well received by consumers. MiTV truly brings entertainment and information together onto the same platform as audience can enjoy high definition films while receive wide range of information like weather updates directly through the internet. Incorporating the technologies of "Natural Light" and "blue laser H.264", the Group's blue laser high definition TV is designed to complement with a wide range of video and audio formats, which provides easy access to multimedia contents and incredible high definition experience.

The Overseas Markets

European Markets

For the six months ended 30 June 2009, the Group's LCD TV sales volume doubled in Western Europe as compared to the same period of last year with core growth drivers in France, Italy and Spain. Meanwhile, the Group started introducing TCL brand LCD TVs in other areas of Western Europe with good selling-out performance. In Northern Europe, LCD TV sales volume also recorded tremendous growth during the period under review. However, the Group continued its prudent development plan in European Markets, especially in Eastern Europe where TV manufacturers were facing drastic foreign exchange risk. In addition, the Group restarted sales in Germany and Czech Republic, where recovery from economic recession was more obvious than that in their neighboring countries. In order to seize opportunities from market transitions to LCD business, the Group introduced 52" models and new products with Digital Video Broadcasting – Terrestrial ("DVB-T") HD (MPEG-4) technology which received good responses from the market. This showed the Group's ability to position its brand at higher end of the market.

North American Markets

In North American Markets, the Group's strong brand presence and successful marketing efforts resulted in expanding sales from leading retail chain customers. Despite the rising panel cost, the Group's North American Markets achieved operating profit in the second quarter of 2009 while operating loss decreased significantly year-on-year in the first half of 2009, as transportation costs and various fixed costs were lowered through successful contract renegotiations and business restructuring. By moving 32" size LCD TV production from Mexico to Huizhou in the PRC, the Group was able to improve supply chain efficiencies, which contributed to a higher profit margin on LCD TV sales. In addition, the Group began transition of after-sales support function from Thomson to Data Exchange Corporation, a leading supply chain solutions provider in the U.S., to further reduce warranty costs and enhance consumer satisfaction.

Emerging Markets

Currency depreciation during the period under review negatively impacted OEM sales demand in some regions of the Emerging Markets. Amidst difficult business environment, sales for the Group's own brand have exceeded expectation and the Group has made significant progress on LCD TV products upgrade and recorded overall operating profit in the second quarter of 2009. Benefiting from significant appreciation of Australian dollars and the launch of new LCD TV products during the period under review, Australia branch achieved its LCD TV upgrade targets and significantly increased its gross profit margin. Vietnam branch achieved solid progress on its LCD TV sales and preliminarily met product upgrade targets. In the second quarter of 2009, gross profit margin for Vietnam branch's CRT TV also improved which reflected the sustainability of this business region. Philippine branch's LCD TV sales also expanded with margin significantly increased. Cost for this branch reduced by 20% year-on-

year with its efficient cost control. Thailand branch enhanced its partnership with chain supermarkets and exercised stringent expenses management which recorded good results. Meanwhile, India branch underwent business model restructuring in early 2009 and expected to achieve improvements in its operating results. The Group proactively provided value-added service to OEM clients and launched regional marketing and sales campaigns in Asia (especially for 2010 Guangzhou Asian Games), to enhance brand awareness and product recognition. Operating costs were reduced mainly due to successful implementation of stringent cost control measures and turnaround strategy. The economy in the Emerging Markets has been generally recovering which benefits in boosting profitability.

Strategic OEM

For the six months ended 30 June 2009, turnover contributed by this segment increased year-on-year due to the business shift from CRT TV to LCD TV. For the period under review, Strategic OEM continued to be an important business segment for the Group as it gained economy of scale, and lowered cost on volume leverage, it brought very stable profit to the Group despite its lower margin. Other achievements relating to Strategic OEM business during the period under review include adopting “Electronic Industry Citizenship Coalition Code of Conduct” and enhancing co-development projects according to customers’ requirements.

AV Products

The Group’s AV Products segment started to gain economy of scale and achieved growth in both sales and customer base during the period under review. Sales volume reached approximately 9.03 million sets, increased by 10.7% year-on-year as compared to approximately 8.15 million sets for the same period last year. The Group had constant negotiation with suppliers to optimize its cost structure in response to margin pressures from surging commodity costs. The Group planned to upgrade the ERP system to optimize its supply chain management while shortening the raw material order cycle.

R&D

Leveraged on the co-design concept, which was introduced during the first quarter of 2009, the Group’s R&D efficiency and product competitiveness were significantly enhanced. During the period under review, the Group placed great emphasis on optimization of cost structure through strategic alliances with players in upstream and downstream industries and cooperation with TCL Optoelectronics Technology (Huizhou) Co., Ltd, an assembly process enterprise and a wholly-owned subsidiary of TCL Corporation in cooperation with Samsung. In addition, after the successful launching of P10 internet TV series in the PRC and MPEG-4 products in France, the Group gained the confidence that it can further enhance its product competitiveness.

Disposal of equity interest in a subsidiary in Wuxi

The Group has completed the disposal of TCL Digital Science and Technology (Wuxi) Company Limited on 26 June 2009. As a result of the completion, the Group will have a total cash inflow of approximately RMB159 million. The Group recorded an unaudited gain of approximately HK\$45 million. This transaction is part of the Group's strategy of assets and operation optimization taking into account of having LCD TV Integration Plant established in Huizhou in September 2009.

OUTLOOK

Looking ahead to the rest of 2009, consumer sentiment will remain weak in many key markets and business environment will continue to be challenging. With the RMB 4 trillion economy stimulus plans initiated by the PRC Government and the fact that the PRC was less impacted by the financial tsunami, it is believed that the PRC economy will outperform other major economies in the second half of 2009. Demand for TV products will continue to increase at a much faster pace with sector specific stimulating policies introduced by the PRC Government. The Group's strong financial position, innovative product lines, expanding customer base, high operating efficiency and domestic market leadership will continue to be key factors for the Group's growth despite the global economic recession.

The transition of analog broadcasting to digital signals in the U.S. has commenced in June 2009. In Europe, MPEG-4 format and Digital Video Broadcasting System are fast developing and becoming new broadcasting standards. The Group will continue to strengthen its sales and market intelligence by closely monitoring market development, obtaining an in-depth understanding of existing and potential customer needs and trends, and strengthening relationships with key customers while acquiring new clients to broadening customer base. At the same time, the Group will strive towards performance optimization through decisive and swift reactions to adjust its cost structure. As the Group is expected to be exposed to fluctuations in currency exchange rates, it adopts prudent financial measures and natural hedging to minimize its exchange risk exposure.

The Group will continue to expand and strengthen its research, design and development team while fostering closer collaboration with suppliers under the co-design concept to strengthen product competitiveness. The Group will continue to seize opportunities in the TV industry in order to enhance its profitability.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

Please refer to note 5 to the financial statements.

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\$2,009,878,000, of which 0.5% was maintained in Hong Kong dollars, 21.7% in US dollars, 71.1% in Renminbi, 1.6% in Euro and 5.1% 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 2008 and there was no asset held under finance lease at the period end.

At the end of the reporting period, the Group's gearing ratio was 21.1% which is calculated based on the Group's net borrowing of approximately HK\$698,687,000 (calculated as total interest-bearing borrowings less pledged deposits and cash and bank balances) and the equity attributable to equity holders of the parent of approximately HK\$3,308,589,000. The maturity profile of the borrowings is from one to five years.

Pledge of Assets

Please refer to notes 14 and 15 to the financial statements.

Capital Commitments and Contingent Liabilities

As at 30 June 2009, the Group had capital commitments of approximately HK\$288,925,000 (31 December 2008: HK\$33,083,000) which was contracted, but not provided for. Except for this, there was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2008.

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 28,161 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 40,343,026 shares remained outstanding at the end of the reporting period.

A Restricted Share Award Scheme (the "Award Scheme") was also adopted by the Company pursuant to which existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Award Scheme.

PURCHASES, SALE OR REDEMPTION OF SHARES

During the period under review, the Company repurchased 15,454,000 shares on the Stock Exchange at an aggregate price of HK\$42,190,460. 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. The shares had been cancelled subsequently on 3 July 2009.

Pursuant to the rules of the Award Scheme adopted by the Company on 6 February 2008, the Company has through the trustee purchased from the market a total of 12,805,600 shares as shares awarded under the Award Scheme (the "Awarded Shares") for the benefit of its employees, out of which 9,224,000 shares at an aggregate amount of about HK\$19,201,000 were purchased by the Company during the period under review. As at 30 June 2009, 4,734,235 Awarded Shares at an amount of about HK\$9,616,000 were vested and 112,788 Awarded Shares at an amount of about HK\$243,000 were granted but not yet vested to the awardees.

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 six months ended 30 June 2009, complied with the code provisions of the Code on 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 six months ended 30 June 2009, 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 by directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

On behalf of the Board
LI Dongsheng
Chairman

Hong Kong, 18 August 2009

As at the date of this announcement, the Board comprises LI Dongsheng, LEONG Yue Wing, YU Guanghui, SHI Wanwen, HUANG Xubin, and XU Fang as executive directors, Albert Thomas DA ROSA, Junior as a non-executive director and TANG Guliang, Robert Maarten WESTERHOF and WU Shihong as independent non-executive directors.