



Interim Report 2010

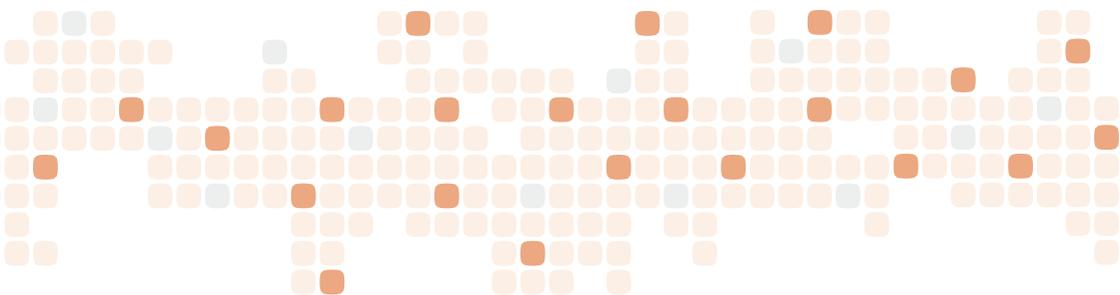
**TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED**

Stock code: 01070



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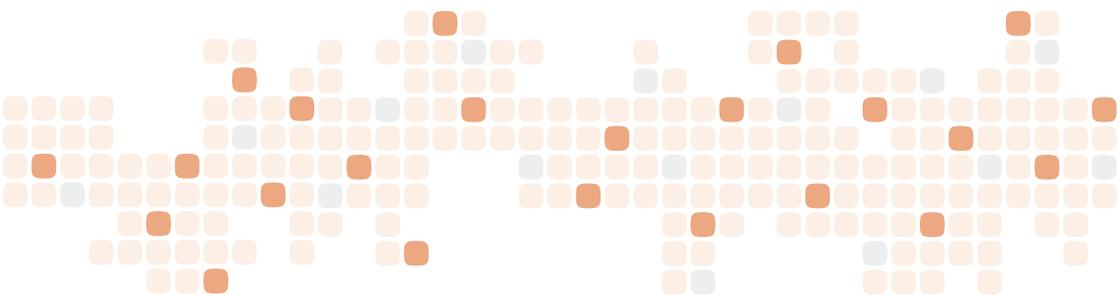


TCL Multimedia Technology Holdings Limited

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Interim Report

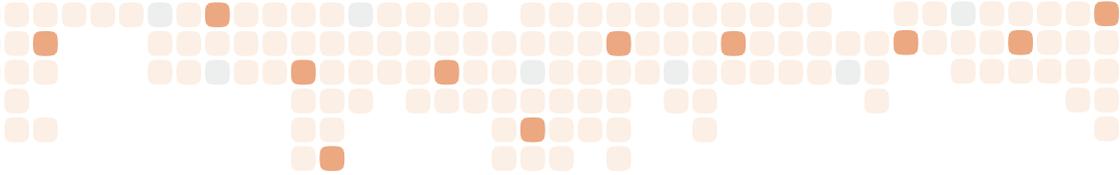
2010



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## Corporate Information

### BOARD OF DIRECTORS

#### Chairman

Mr. LI Dongsheng

#### Executive Directors

Mr. BO Lianming (appointed as an executive director and the vice chairman effective from 14 May 2010)

Mr. YU Guanghui (chief executive officer)

Mr. SHI Wanwen

Ms. XU Fang

#### Non-Executive Directors

Mr. Albert Thomas DA ROSA, Junior

Mr. HUANG Xubin (re-designated as non-executive director effective from 22 March 2010)

Mr. LEONG Yue Wing (re-designated as non-executive director effective from 1 April 2010)

#### Independent Non-Executive Directors

Mr. TANG Guliang

Mr. Robert Maarten WESTERHOF

Ms. WU Shihong

#### 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

Room 501, 5/F

Sun Hung Kai Centre

30 Harbour Road

Wanchai, Hong Kong

#### PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705, George Town

Grand Cayman

Cayman Islands

#### BRANCH REGISTRAR

Tricor 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

P.O. Box 309

Ugland House

Grand Cayman

KY1-1104

Cayman Islands

#### INVESTOR AND MEDIA RELATIONS

Brunswick Group Limited

22/F, Onfem Tower

29 Wyndham Street

Central, Hong Kong

## Interim Results

The Board of Directors (the "Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010 with comparative figures for the previous period as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June		Three months ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
TURNOVER	4	<b>12,240,676</b>	11,391,350	<b>5,480,044</b>	6,377,040
Cost of sales		<b>(10,520,040)</b>	(9,307,924)	<b>(4,856,847)</b>	(5,203,946)
Gross profit		<b>1,720,636</b>	2,083,426	<b>623,197</b>	1,173,094
Other revenue and gains		<b>157,809</b>	137,450	<b>125,404</b>	99,851
Selling and distribution costs		<b>(1,575,959)</b>	(1,401,211)	<b>(802,344)</b>	(801,343)
Administrative expenses		<b>(346,976)</b>	(391,164)	<b>(184,372)</b>	(200,936)
Research and development costs		<b>(81,912)</b>	(101,824)	<b>(40,586)</b>	(48,782)
Other operating expenses		<b>(46,789)</b>	(53,259)	<b>(17,035)</b>	(34,955)
		<b>(173,191)</b>	273,418	<b>(295,736)</b>	186,929
Finance costs	5	<b>(106,943)</b>	(43,938)	<b>(51,834)</b>	(18,216)
Share of profits and losses of:					
Jointly-controlled entities		<b>(1,794)</b>	(6,610)	<b>(1,800)</b>	(3,505)
Associates		<b>(792)</b>	1,802	<b>880</b>	715
PROFIT/(LOSS) BEFORE TAX		<b>(282,720)</b>	224,672	<b>(348,490)</b>	165,923
Income tax expense	6	<b>(47,960)</b>	(81,262)	<b>(28,627)</b>	(47,296)
PROFIT/(LOSS) FOR THE PERIOD		<b>(330,680)</b>	143,410	<b>(377,117)</b>	118,627
OTHER COMPREHENSIVE INCOME/(LOSS)					
Exchange fluctuation reserve:					
Translation of foreign operations		<b>34,002</b>	(61,249)	<b>31,978</b>	(30,030)
Release upon disposal and liquidation of subsidiaries		-	(22,407)	-	(22,397)
Release upon disposal of an associate		<b>(21)</b>	-	<b>(21)</b>	-
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<b>33,981</b>	(83,656)	<b>31,957</b>	(52,427)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<b>(296,699)</b>	59,754	<b>(345,160)</b>	66,200

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Six months ended 30 June		Three months ended 30 June	
	2010 (unaudited) <i>Notes</i> <b>HK\$'000</b>	2009 (unaudited) <i>HK\$'000</i>	2010 (unaudited) <b>HK\$'000</b>	2009 (unaudited) <i>HK\$'000</i>
Profit/(loss) attributable to:				
Owners of the parent	<b>(333,775)</b>	143,302	<b>(377,514)</b>	117,612
Non-controlling interests	<b>3,095</b>	108	<b>397</b>	1,015
	<b>(330,680)</b>	143,410	<b>(377,117)</b>	118,627
Total comprehensive income/(loss) attributable to:				
Owners of the parent	<b>(300,665)</b>	59,835	<b>(346,312)</b>	65,143
Non-controlling interests	<b>3,966</b>	(81)	<b>1,152</b>	1,057
	<b>(296,699)</b>	59,754	<b>(345,160)</b>	66,200
EARNINGS/(LOSS) PER SHARE	9			
Basic	<b>HK(31.80) cents</b>	HK14.04 cents		
Diluted	<b>HK(31.80) cents</b>	HK14.04 cents		

Details of the dividends payable and proposed for the six months ended 30 June are disclosed in note 8.

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2010 (unaudited) HK\$'000</b>	31 December 2009 (audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,524,198</b>	1,603,372
Prepaid land lease payments		<b>70,485</b>	70,944
Goodwill		<b>119,638</b>	119,638
Other intangible assets		<b>1,547</b>	2,492
Interests in jointly-controlled entities		<b>108,892</b>	109,772
Interests in associates		<b>91,457</b>	99,183
Available-for-sale investments		<b>1,182</b>	1,182
Deferred tax assets		<b>20,722</b>	19,504
<b>Total non-current assets</b>		<b>1,938,121</b>	2,026,087
<b>CURRENT ASSETS</b>			
Inventories		<b>4,649,530</b>	4,917,896
Trade receivables	10	<b>3,063,956</b>	4,078,239
Bills receivable		<b>835,476</b>	822,115
Other receivables		<b>1,285,893</b>	832,630
Tax recoverable		<b>13,368</b>	13,530
Pledged deposits		<b>934,966</b>	86,725
Cash and bank balances		<b>2,069,330</b>	2,078,724
<b>Non-current asset classified as held for sale</b>	11	<b>12,852,519 65,215</b>	12,829,859 65,215
<b>Total current assets</b>		<b>12,917,734</b>	12,895,074
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>3,442,220</b>	6,022,703
Bills payable		<b>2,236,961</b>	683,076
Other payables and accruals		<b>1,612,602</b>	1,784,480
Interest-bearing bank and other borrowings	13	<b>2,564,475</b>	1,761,048
Due to TCL Corporation	14	<b>452,614</b>	129,457
Due to T.C.L. Industries	14	<b>38,146</b>	38,146
Tax payable		<b>117,903</b>	163,458
Provisions		<b>221,645</b>	221,796
<b>Total current liabilities</b>		<b>10,686,566</b>	10,804,164
<b>NET CURRENT ASSETS</b>		<b>2,231,168</b>	2,090,910
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,169,289</b>	4,116,997

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		30 June 2010 (unaudited) <i>HK\$'000</i>	31 December 2009 (audited) <i>HK\$'000</i>
	<i>Notes</i>		
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>4,169,289</b>	4,116,997
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	<b>315,295</b>	369,192
Deferred tax liabilities		<b>11,010</b>	11,818
Pensions and other post-employment benefits		<b>18,937</b>	23,522
Total non-current liabilities		<b>345,242</b>	404,532
Net assets		<b>3,824,047</b>	3,712,465
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital	15	<b>1,086,047</b>	1,011,840
Reserves		<b>2,642,248</b>	2,487,418
Proposed final dividends		–	121,421
<b>Non-controlling interests</b>		<b>3,728,295</b>	3,620,679
		<b>95,752</b>	91,786
Total equity		<b>3,824,047</b>	3,712,465

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent												
	Share		Share		Capital reserve	Reserve funds	Exchange fluctuation reserve	Accumulated losses	Shares		Non-controlling interests	Total equity	
	Issued capital	premium account	Treasury shares	option reserve					held for the Award Scheme	Awarded share reserve			Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2009	1,021,827	2,885,594	-	41,022	59,099	784,342	373,919	(1,869,573)	(7,808)	-	3,288,422	124,684	3,413,106
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(83,467)	143,302	-	-	59,835	(81)	59,754
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(59,563)	(59,563)
Shares repurchased	-	-	(42,342)	-	-	-	-	-	-	-	(42,342)	-	(42,342)
Equity-settled share option arrangements	-	-	-	8,577	-	-	-	-	-	-	8,577	-	8,577
Share options lapsed during the period	-	-	-	(1,663)	-	-	-	1,663	-	-	-	-	-
Purchase of shares for the Award Scheme	-	-	-	-	-	-	-	-	(19,201)	-	(19,201)	-	(19,201)
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	-	9,615	3,683	13,298	-	13,298
Transfer from retained profits	-	-	-	-	-	4,350	-	(4,350)	-	-	-	-	-
At 30 June 2009	1,021,827	2,885,594	(42,342)	47,936	59,099	788,692	290,452	(1,728,958)	(17,394)	3,683	3,308,589	65,040	3,373,629

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY(CONTINUED)

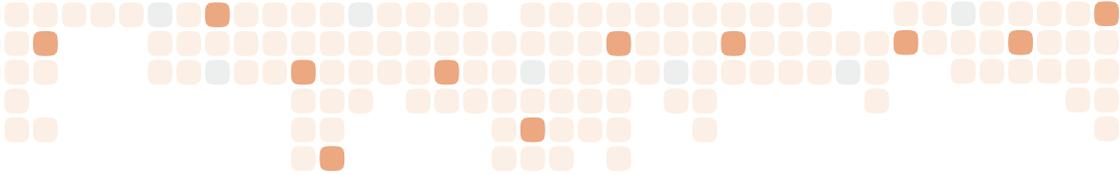
	Attributable to owners of the parent													
	Issued capital (unaudited) HK\$'000	Share premium account	Share option reserve	Capital reserve	Reserve funds	Exchange fluctuation reserve	Accumulated losses	Shares held for the Award Scheme	Awarded share reserve	Proposed final dividends	Total	Non-controlling interests	Total equity	
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	1,011,840	2,777,385	32,312	59,099	858,194	312,547	(1,538,408)	(17,150)	3,459	121,421	3,620,679	91,786	3,712,465	
Total comprehensive income/(loss) for the period	-	-	-	-	-	33,110	(333,775)	-	-	-	(300,665)	3,966	(296,699)	
Dividend paid to shareholders	-	(7,939)	-	-	-	-	-	-	-	(121,421)	(129,360)	-	(129,360)	
Equity-settled share option arrangements	-	-	3,757	-	-	-	-	-	-	-	3,757	-	3,757	
Issue of shares upon exercise of share options	2,207	12,665	(3,895)	-	-	-	-	-	-	-	10,977	-	10,977	
Share options lapsed during the period	-	-	(984)	-	-	-	984	-	-	-	-	-	-	
Subscription of new shares	72,000	450,785	-	-	-	-	-	-	-	-	522,785	-	522,785	
Vesting of shares under the Award Scheme	-	-	-	-	-	-	-	119	3	-	122	-	122	
Transfer from retained profits	-	-	-	-	21,338	-	(21,338)	-	-	-	-	-	-	
At 30 June 2010	1,086,047	3,232,896*	31,190*	59,099*	879,532*	345,657*	(1,892,537)*	(17,031)*	3,442*	-	3,728,295	95,752	3,824,047	

\* These reserve accounts comprise the consolidated reserves of HK\$2,642,248,000 (31 December 2009: HK\$2,487,418,000) in the condensed consolidated statement of financial position.

## Interim Results

### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Net cash outflow from operating activities	<b>(623,027)</b>	(447,838)
Net cash outflow from investing activities	<b>(855,103)</b>	(270,815)
Net cash inflow from financing activities	<b>1,454,046</b>	577,136
<b>Net decrease in cash and cash equivalents</b>	<b>(24,084)</b>	(141,517)
Cash and cash equivalents at beginning of period	<b>2,078,724</b>	2,157,768
Effect of foreign exchange rate changes, net	<b>14,690</b>	(6,373)
<b>Cash and cash equivalents at end of period</b>	<b>2,069,330</b>	2,009,878
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>2,069,330</b>	2,009,878



## Interim Results

*Notes:*

### **1. BASIS OF PREPARATION**

These unaudited interim condensed financial statements are prepared according to 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 condensed 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 condensed financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

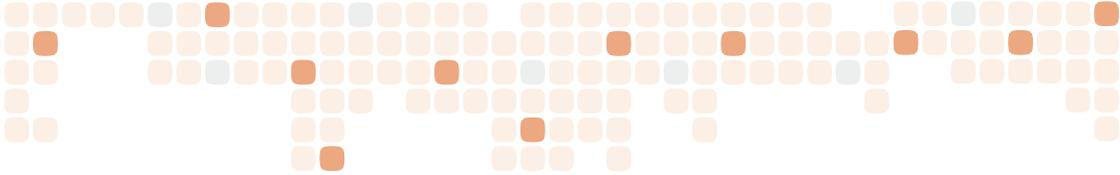
The accounting policies and the basis of preparation adopted in the preparation of these condensed financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2009, except for the adoption of the new and revised HKFRSs as disclosed in note 2 below.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's condensed financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK (IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 (included in <i>Improvements to HKFRSs issued in October 2008</i> )	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations– Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs (May 2009)	Amendments to a number of HKFRSs

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



## Interim Results

### 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 condensed financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Right Issues</i> <sup>1</sup>
HK (IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HK (IFRIC)-Int14 Amendments	Amendments to HK (IFRIC)-Int14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

#### 4. OPERATING SEGMENT INFORMATION

The Group identified the operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker, who is the Chief Executive Officer of the Company, in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are as follows:

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that bank interest income, finance costs, share of profits and losses of jointly-controlled entities and associates, fair value gains/(losses) on the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

## Interim Results

### 4. OPERATING SEGMENT INFORMATION (continued)

Information regarding these reportable segments, together with their related comparative information, is presented below.

	Six months ended 30 June									
	Television – PRC market		Television – Overseas market		AV		Others		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
Sales to external customers	<b>6,512,839</b>	5,992,719	<b>3,625,579</b>	3,748,101	<b>1,641,497</b>	1,551,449	<b>460,761</b>	99,081	<b>12,240,676</b>	11,391,350
Segment results	<b>(181,890)</b>	312,852	<b>(78,043)</b>	(27,155)	<b>138,885</b>	61,271	<b>12,031</b>	(31,061)	<b>(109,017)</b>	315,907
Bank interest income									<b>6,295</b>	5,000
Corporate expenses									<b>(70,469)</b>	(47,489)
Finance costs									<b>(106,943)</b>	(43,938)
Share of profits and losses of:										
Jointly-controlled entities	<b>(2,894)</b>	(4,798)	<b>1,100</b>	(1,812)	-	-	-	-	<b>(1,794)</b>	(6,610)
Associates	<b>(49)</b>	(18)	-	-	-	-	<b>(743)</b>	1,820	<b>(792)</b>	1,802
<b>Profit/(loss) before tax</b>									<b>(282,720)</b>	224,672
Income tax expense									<b>(47,960)</b>	(81,262)
<b>Profit/(loss) for the period</b>									<b>(330,680)</b>	143,410

## Interim Results

### 5. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	<b>92,302</b>	38,612
Loans from TCL Corporation	<b>8,805</b>	1,412
Loan from T.C.L. Industries	-	384
Loans from an associate	<b>4,235</b>	4,474
Loan from an associate of TCL Corporation	<b>1,601</b>	-
	<b>106,943</b>	44,882
Less: interests capitalized	-	(944)
Total	<b>106,943</b>	43,938

### 6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (30 June 2009: 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.

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong	<b>8,459</b>	-
Current – Elsewhere	<b>41,762</b>	89,458
Deferred	<b>(2,261)</b>	(8,196)
Total tax charge for the period	<b>47,960</b>	81,262

## Interim Results

### 7. DEPRECIATION AND AMORTIZATION

During the period, depreciation of HK\$112,295,000 (30 June 2009: HK\$112,057,000) was charged to the condensed consolidated statement of comprehensive income in respect of the Group's property, plant and equipment; and amortization of HK\$962,000 (30 June 2009: HK\$2,920,000) and HK\$1,139,000 (30 June 2009: HK\$921,000) were charged to the condensed consolidated statement of comprehensive income in respect of the Group's other intangible assets and prepaid land lease payments, respectively.

### 8. DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2010 (30 June 2009: Nil).

### 9. EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per share amounts are based on:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000

#### Earnings/(loss)

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

**(333,775)**

143,302

**9. EARNINGS/(LOSS) PER SHARE (continued)**

	Number of shares	
	Six months ended 30 June	
	2010 (unaudited)	2009 (unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation	<b>1,049,587,381</b>	1,020,765,220
Effect of dilution – weighted average number of ordinary shares:		
Assumed issue at no consideration on deemed exercise of all share options during the period	<b>9,607,189</b>	–
Weighted average number of ordinary shares in issue during the period used in diluted earnings/(loss) per share calculation	<b>1,059,194,570</b>	1,020,765,220

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2010 in respect of the dilution as the impact of the share options outstanding during the period had an anti-dilutive effect on the basic loss per share amount presented.

**10. TRADE RECEIVABLES**

The majority of the Group's sales in the 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.

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.

## Interim Results

### 10. TRADE RECEIVABLES (continued)

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:

	<b>30 June 2010 (unaudited) HK\$'000</b>	31 December 2009 (audited) HK\$'000
Current to 90 days	<b>2,764,982</b>	3,844,734
91 days to 180 days	<b>119,705</b>	151,073
181 days to 365 days	<b>110,826</b>	68,688
Over 365 days	<b>68,443</b>	13,744
	<b>3,063,956</b>	4,078,239

### 11. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

On 7 January 2009, the Group entered into a framework agreement (the "Disposal Agreement") with Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd. ("Tianjin Vantone"), an associate of TCL Corporation ("TCL Corporation"), to dispose of its entire interests in TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi"), a 70%-owned subsidiary of the Group, for an aggregate initial consideration of RMB159,000,000 (equivalent to HK\$181,065,000) (the "Consideration").

The Consideration was further adjusted to RMB142,761,000 (equivalent to HK\$161,916,000) after taking into account the receipts/payments of certain assets/liabilities of TCL Wuxi by the Group before the completion of the Disposal Agreement (the "Working Capital Adjustment").

Pursuant to the Disposal Agreement and taking into account the Working Capital Adjustment, the disposal involved the following steps:

- (i) The Group to transfer 45% interest in TCL Wuxi (the "Disposal Interest") to Tianjin Vantone for a cash consideration of RMB85,261,000 (equivalent to HK\$96,701,000) in June 2009;
- (ii) Tianjin Vantone to provide the Group a loan (the "Trust Loan") of RMB57,500,000 (equivalent to HK\$65,215,000) for a period up to 26 October 2010;

**11. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE (continued)**

- (iii) The Group to pledge the remaining 25% interest in TCL Wuxi (the "Pledged Interest") in favour of Tianjin Vantone as a security for the Trust Loan; and
- (iv) The Group to transfer the Pledged Interest to Tianjin Vantone as settlement of the Trust Loan within 15 days after the maturity of the Trust Loan.

Completion of the Disposal Agreement took place in June 2009 when steps (i) to (iii) above were completed as the Group is no longer entitled to any economic benefits of TCL Wuxi even though it still holds the legal title of the Pledged Interest.

As at 30 June 2010, the Pledged Interest, which will be transferred to Tianjin Vantone as settlement of the Trust Loan, was classified as a non-current asset held for sale and included as a current asset on the condensed consolidated statement of financial position.

**12. TRADE PAYABLES**

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

	<b>30 June 2010 (unaudited) HK\$'000</b>	31 December 2009 (audited) HK\$'000
Current to 90 days	<b>3,305,880</b>	5,901,881
91 days to 180 days	<b>69,011</b>	48,316
181 days to 365 days	<b>13,606</b>	13,466
Over 365 days	<b>53,723</b>	59,040
	<b>3,442,220</b>	6,022,703

The trade payables are non-interest-bearing and are normally settled with credit periods ranging from 30 to 120 days.

## Interim Results

### 13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>30 June 2010 (unaudited) HK\$'000</b>	31 December 2009 (audited) HK\$'000
<b>Current</b>		
Bank loans – secured	<b>1,054,378</b>	172,353
Bank loans – unsecured	<b>967,654</b>	1,182,479
Trust receipt loans – unsecured	<b>321,265</b>	99,888
Loans from an associate – unsecured	<b>155,253</b>	241,009
Loan from an associate of TCL Corporation – secured	<b>65,925</b>	65,319
	<b>2,564,475</b>	1,761,048
<b>Non-current</b>		
Bank loans – secured	<b>315,295</b>	369,192
	<b>2,879,770</b>	2,130,240
Analysed into:		
Bank loans repayable:		
Within one year or on demand	<b>2,343,297</b>	1,454,720
In the second year	<b>114,653</b>	113,598
In the third to fifth year, inclusive	<b>200,642</b>	255,594
	<b>2,658,592</b>	1,823,912
Loans from an associate repayable:		
Within one year	<b>155,253</b>	241,009
Loan from an associate of TCL Corporation repayable:		
Within one year	<b>65,925</b>	65,319
	<b>2,879,770</b>	2,130,240

**13. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)**

Notes:

- (a) As at 30 June 2010, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.
- (b) Certain of the Group's bank loans are secured by:
  - (i) pledge of the Group's prepaid land lease payments, buildings and plant and machinery situated in the PRC, which had aggregate carrying amounts at the end of the reporting period of approximately HK\$23,855,000 (31 December 2009: HK\$24,277,000), HK\$244,658,000 (31 December 2009: HK\$248,507,000) and HK\$111,732,000 (31 December 2009: HK\$116,279,000), respectively.
  - (ii) pledge of certain of the Group's time deposits amounting to HK\$934,966,000 (31 December 2009: HK\$86,725,000).
- (c) The loan due to the associate of TCL Corporation is secured by the Pledged Interest.
- (d) TCL Corporation has guaranteed certain of the Group's bank loans up to HK\$1,308,527,000 (31 December 2009: HK\$1,702,188,000) as at the end of the reporting period.

**14. DUE TO TCL CORPORATION/T.C.L. INDUSTRIES**

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

The amounts are unsecured and are repayable within one year (31 December 2009: the amount of HK\$85,198,000 due to TCL Corporation was secured by certain of Group's buildings and prepaid land lease payments with net carrying amounts of approximately HK\$88,386,000 and HK\$14,264,000 respectively).

## Interim Results

### 15. SHARE CAPITAL

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
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#### Shares

Authorised:

2,200,000,000 (31 December 2009: 2,200,000,000) shares of HK\$1.00 (31 December 2009: HK\$1.00) each	<b>2,200,000</b>	2,200,000
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Issued and fully paid:

1,086,046,922 (31 December 2009: 1,011,840,056) shares of HK\$1.00 (31 December 2009: HK\$1.00) each	<b>1,086,047</b>	1,011,840
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During the six months ended 30 June 2010, the subscription rights attaching to 760,178 share options and 1,446,688 share options were exercised at the subscription prices of HK\$2.45 and HK\$6.30 per share, respectively, resulting in the issue of 2,206,866 shares of HK\$1.00 each for a total cash consideration, before expenses, of HK\$10,977,000.

On 22 March 2010, the Company entered into a placing and subscription agreement (the "Agreement") with T.C.L. Industries for placing of old shares and subscription of new shares of the Company. Completion of the Agreement took place on 1 April 2010 and 72,000,000 new ordinary shares of the Company were issued to T.C.L. Industries at HK\$7.43 each.

For details of the Agreement, please refer to the announcements of the Company dated 22 March 2010 and 1 April 2010.

## Interim Results

### 16. RELATED PARTY TRANSACTIONS

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

	<b>Six months ended 30 June</b>	
	<b>2010</b>	2009
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
Jointly-controlled entities:		
Sale of raw materials	<b>70,840</b>	5,730
Sale of finished goods	<b>49,727</b>	42,960
Purchases of finished goods	<b>82,500</b>	25,064
TCL Corporation:		
Interest expense	<b>8,805</b>	1,412
Bank loan guarantee fee	<b>4,790</b>	3,736
T.C.L. Industries:		
Interest expense	-	384
An associate:		
Interest income	<b>1,497</b>	1,555
Interest expense	<b>4,235</b>	4,474
Other finance service fee	<b>217</b>	166
Companies controlled by TCL Corporation:		
Sale of raw materials	<b>157,050</b>	7,878
Sales of finished goods	<b>30,493</b>	7,419
Purchases of raw materials	<b>1,103,494</b>	644,567
Purchase of finished goods	<b>48,582</b>	-
Subcontracting fee expense	<b>381</b>	5,642
Rental, maintenance fees and facilities usage fee	<b>1,095</b>	1,152
Rental expense	<b>17,336</b>	13,013
Reimbursement of brand advertising cost	<b>71,244</b>	56,173
Logistic service fee expense	<b>25,910</b>	14,946
Call centre service fee expense	<b>7,886</b>	8,090
Sales of mobile phones	-	3,975
Purchase of mobile phones materials	-	66
Associates of TCL Corporation:		
Purchases of finished goods	<b>663,609</b>	65,464
Sales of raw materials	<b>28,151</b>	-
Sales of finished goods	<b>49,525</b>	41,525
Rental expense	<b>644</b>	-
Interest expense	<b>1,601</b>	-

## Interim Results

### 16. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Jointly-controlled entities	<b>20,866</b>	36,233	<b>157,074</b>	179,293
TCL Corporation and its affiliates	<b>700,427</b>	89,467	<b>556,442</b>	987,156



## Management Discussion and Analysis

### BUSINESS REVIEW

During the six months ended 30 June 2010, although the Group's turnover increased by 7.5% to HK\$12,241 million as compared to the same period last year, the Group's TV sales volume in the PRC Market was below its target. This was largely caused by the intensifying competition from domestic brands and international brands in the PRC Market, the overly optimistic forecast of the PRC's TV industry resulting in a high inventory level at the beginning of this year, and the Group's lack of competitive advantage in LED backlight LCD TV products to benefit from the incremental market opportunities. At the same time, the Group disposed of its inventory of obsolete TV models in order to increase its proportion of LED backlight LCD TV products, which led to a decline in selling prices. Coupled with the impact of one-off restructuring costs and the continuous depreciation of Euro, the Group's gross profit during the period under review decreased by 17.4% compared with the same period of last year. The Group recorded an operating loss of HK\$173 million and a loss attributable to owners of the parent of HK\$334 million.

With the acceleration of the upgrade of TV products in the market, the Group focused on selling down its old Cold Cathode Fluorescent Lamp LCD TV ("CCFL LCD TV") stock during the second quarter of 2010 in order to grasp the LED backlight LCD TV market growth opportunities. This will allow the Group to focus on the product launch and lay a solid foundation to broaden the sales of its new LED backlight LCD TV products during the second half of this year.

Despite the challenges of the macro economic environment, during the period under review, the Group continued to strengthen its business development and undertook a series of organizational and business restructuring measures. The Group streamlined its operations by focusing on reducing workforce and clarifying the responsibilities of frontline sales staff and back office support team, which enhanced operational efficiency. At the same time, the Group reduced the pressure from rising costs by optimizing the supply chain, particularly strengthening its panel prices and inventory control.

During the period under review, the Group successfully completed a share placement and subscription, raising approximately HK\$523 million in net proceeds, strengthening its financial position and further fostering the development of its LED backlight LCD TV business in the PRC Market, as well as laying a solid foundation for its sustainable development. The Group maintained a solid financial position with cash and bank balances of HK\$ 2,069 million as at 30 June 2010.

## Management Discussion and Analysis

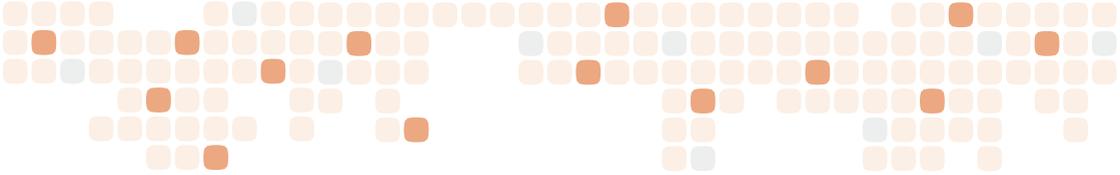
### TV Sales

According to the statistics by DisplaySearch, the Group has been ranked the 6th largest TV brand globally in term of sales volume, with market share of 5.2% in the first half of 2010.

For the six months ended 30 June 2010, the Group's LCD TV sales volume grew by 11.1% year-on-year, from approximately 2.93 million sets in the first half of 2009 to approximately 3.25 million sets in the first half of 2010.

Sales volume by region is indicated below:

	1H 2010 ('000 sets)	1H 2009 ('000 sets)	Change
<b>LCD TVs</b>	<b>3,254</b>	2,930	+11.1%
– PRC	<b>2,055</b>	1,591	+29.2%
– Overseas	<b>1,199</b>	1,339	(10.5%)
<b>CRT TVs</b>	<b>2,836</b>	2,305	+23.0%
– PRC	<b>993</b>	1,426	(30.4%)
– Overseas	<b>1,843</b>	879	+109.7%
<b>Total TV sales volume</b>	<b>6,090</b>	5,235	+16.3%
<b>Total AV products sales volume</b>	<b>7,770</b>	9,029	(13.9%)



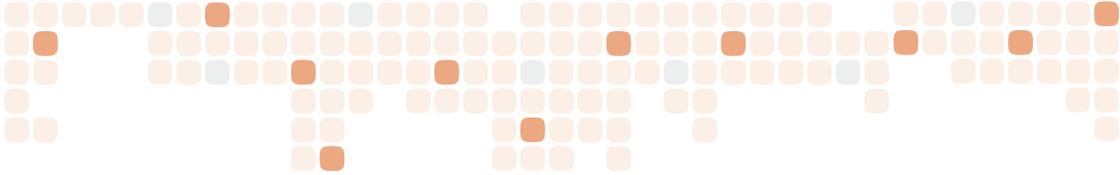
## Management Discussion and Analysis

### The PRC Market

With the market transition from CRT TVs to LCD TVs, economic improvement and the PRC government's economic stimulus policies, the market demand for LCD TVs in the PRC Market continued to grow steadily during the first half of this year. At the same time, LED backlight LCD TVs are replacing traditional CCFL LCD TVs to become the mainstream TV products in the PRC Market because LED backlight technology has many advantages, such as energy efficiency, better resolution as well as longer longevity.

During the period under review, the Group recorded a turnover of HK\$6,513 million in the PRC Market, a year-on-year increase of 8.7%. In terms of sales volume, the Group sold a total of 2.06 million LCD TV sets, a year-on-year increase of 29.2%. The Group's sales in the PRC Market, however, were below target mainly due to the overly optimistic forecast of the PRC TV industry which resulted in high inventory levels at the beginning of this year. Therefore, during the period under review, the Group focused on adjusting its product mix and clearing its inventory of the obsolete TV models in preparation for the introduction of new LED backlight LCD TV products during the third quarter of 2010. Nevertheless, the Group's gross profit margin in the PRC Market was under severe pressure due to price reduction for destocking. At the same time, the Group failed to benefit from this incremental market and missed the opportunity to enhance its profitability during the first half of this year as the Group's overall sales structure was sub-optimal and the launch of its new LED backlight LCD TVs was delayed, while lacking of competitive advantages in those products. The sales of the Group's LED backlight LCD TV products only accounted for 1.5% of its overall LCD TV sales in the PRC Market, far below the market average of 6.8%, according to the source from AVC. Due to excessive product proliferation of CCFL LCD TV products and less competitiveness of its mainstream products, the Group's overall TV gross profit margin declined to 16.2% in the PRC Market during the first half of 2010 compared to 24.6% during the same period last year, and it also recorded an operating loss of HK\$182 million. Additionally, due to the growing penetration of international brands into the PRC Market and the intensifying competition driven by the narrowing price differences between international brand products and domestic brand products, the Group's market share in the PRC Market decreased slightly.

On the other hand, the Group continued to benefit from the PRC government's "Household Appliances Subsidy Scheme", and introduced timely products to meet fast-growing demand from third, fourth and fifth-tier cities upgrading from CRT TVs to LCD TVs during the period under review. This led to significant increase in sales volume in those towns and villages. Revenue generated from the scheme over the Group's total TV revenue in the PRC Market increased to 37% compared to 15% in the same period last year. At the same time, the PRC government announced in June this year that the "Home Appliances Replacement Scheme" was extended to an additional 19 provinces and municipalities, which will be effective until 31 December 2011. This will in turn, serve to



## Management Discussion and Analysis

stimulate high-end product sales in first and second-tier cities, and further promote the upgrading process of TV products. However, the Group expects that the benefits of this scheme will not be reflected until the second half of this year.

The Group's operating results have been seriously affected by the intensifying competition in the PRC Market. Hence the Group focused on streamlining its manufacturing process by integrating its industry chain, as well as optimizing its product mix, expanding its distribution, logistics and customer services network in the third and fourth tier cities. In addition, being one of the earlier entrants into R&D of the Internet TV business, the Group's Internet TV – MiTV maintained its leading position in the PRC Market; the sales volume of Internet TV accounted for 25.09% of the Group's LCD TV sales volume in the PRC Market during the first half of the year. Leveraging its cooperation with Wasu Digital TV Media Group, the PRC's video content provider, the Group will expand further into the Internet TV market and maintain its competitive position in the PRC Market.

### **Overseas Markets**

#### *Emerging Markets*

During the period under review, the Group continued to benefit from opportunities in the transition in market demand from CRT TVs to LCD TVs. By adopting a flexible product mix and optimal supply chain, as well as the success of the World Cup promotional marketing strategy, the Group saw strong growth in its LCD TV and CRT TV sales volume, with a year-on-year increase of 294.1% and 148.0% respectively. During the period under review, the Group introduced E10 and M9 series of integrated digital LCD TVs in order to seize market share in Brazil and Argentina. With the continuous efforts in promoting and strengthening its own branded products, sales volume in this market as a proportion of the Group's total sales volume continued to rise, demonstrating a sound and progressive development within Emerging Markets. The Group was also actively exploring new customer bases and successfully saw a sales volume breakthrough in India and Brazil.

#### *European Markets*

For the six months ended 30 June 2010, the Group's LCD TV sales volume in the European Markets grew 124.9% year-on-year, attributable to its effective marketing strategies to promote the TCL branded LCD TV products in the Western European Markets. However, due to the European debt crisis and the sharp depreciation of Euro, sales slowed down in the second quarter of 2010, resulting in a significant impact on the operating results of its European Markets during the period under review. Therefore, the Group continued to implement a conservative and prudent development strategy in the European Markets, and implemented a strategy of localizing procurement which effectively reduced operating costs and improved market competitiveness. The Group also continued to promote TCL branded TV products, gradually establishing the market position for the TCL brand



## Management Discussion and Analysis

in the European Markets and creating synergies between TCL and THOMSON brand. In addition, the Group continued to reduce foreign exchange risks through hedging.

### *North American Markets*

During the second quarter of 2010, the Group ceased to sell of RCA branded TVs. As a result, sales, during the period under review, for the North American Markets were mainly from inventory clearance, and majority of inventory were cleared up in the first half of this year. In line with the Group's brand development strategy, the Group will inject more resources into the promotion of TCL branded TV products. Although sales volume in North American Markets was negatively impacted in the short term, it will be beneficial to the Group's long term development. In addition, during the period under review, the Group successfully opened a new online sales channel in partnership with Amazon, the largest Internet retailer in the United States.

### *Strategic OEM*

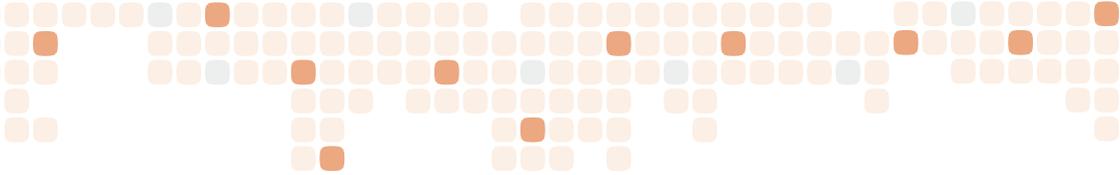
From the first quarter of 2010, the Group devoted more resources to promote its own branded TV products, further reducing the proportion of the strategic OEM business in the Group's overall TV operations. At the same time, the Group continued to keep pace with market demand and maintained stringent cost control. The Group also continued to actively explore business opportunities from the established international brands.

### **AV Products**

During the period under review, the traditional DVD player market continued to shrink, resulting in a decrease of the Group's sales volume in AV products by 13.9% to approximately 7.77 million sets in the first half of 2010. However, despite the adverse market environment and rising price of raw materials, the Group's AV business contributed a notable profit and its operating profit recorded a substantial increase compared with that of the same period last year. This was achieved largely through maximizing the economies of scale generated from its production capacity and effective cost control such as extending collaboration with strategic suppliers.

### **R&D**

To cope with the changing market demand, the Group introduced 17 new series of LCD TV products during the period under review of which 7 were LED backlight LCD TVs. The market response has been positive. In addition, during the period under review, the Group introduced the Video on Demand (VoD) feature in its Internet Protocol TV (IPTV) to substantially improve its product competitiveness in the European Markets.



## Management Discussion and Analysis

### Outlook

Looking ahead to the second half of 2010, the business environment of the global TV industry remains full of opportunities and challenges. According to a report released by DisplaySearch, global TV shipments in the first quarter of 2010 recorded a better than expected performance, leading to an increase in the full year forecast. Annual shipments for 2010 are estimated to reach 242 million sets, an expected increase of 15% year-on-year. Of this, LCD TV shipments are expected to amount to more than 188 million sets, an increase of 29% year-on-year; global LED backlight LCD TV shipments are estimated to reach 37.1 million sets in 2010 and to increase rapidly in 2011 as compared with approximately 3.6 million sets shipped in 2009. As LED backlight LCD TVs continue to grow in popularity, and gross profit margin for this product is much higher than that of CCFL LCD TVs, the LED backlight LCD TV business will have strong sales momentum and better profitability in the TV industry. Therefore, looking ahead to the second half of this year, the Group will not only focus on grasping the opportunity during this transition period from CRT TVs to LCD TVs, but will also focus on implementing a transformation strategy for its high-end TV products. The Group will therefore proactively increase the proportion of LED backlight LCD TV products sold. It will also further the application of its Internet TV product features to solidify its leading position in Internet TVs as well as seize market share and improve profitability, especially in the PRC Market and Emerging Markets. The Group sets an annual LCD TV sales volume target of 8 million sets, of which LED backlight LCD TV penetration is expected to reach approximately 15%.

On the other side, as the competition between domestic and international brands will further intensify in the second half of this year, it will pose further pressure on CCFL LCD TV's gross profit margin. In addition, the Group's market share in the PRC Market dropped slightly due to its delayed introduction of LED backlight LCD TVs. This will bring some uncertainties to the Group's profitability in the second half of this year. Meanwhile, the Group will strive to complete the restructuring of its operations, including marketing, R & D, supply chain, production, sales and cost control, as well as effectively sell down the old inventory within this year, in order to prepare for the overall development in the second half of this year and the coming year. The Group will adopt a market demand-oriented business model, and sell down old model inventory in a well-planned manner, and improve inventory turnover. Inventory clearance in distribution channels was largely completed in July this year, and the Group's inventory clearance will be completed by the end of the third quarter of this year. The Group will also actively integrate its product lines, increase the promotional efforts of LED backlight LCD TV products and launch at least 20 new products, along with expanding its sales channels by opening specialty stores.

The Group's joint venture with Taiwan's AU Optronics Corporation started mass production of LED backlight modules in August of this year, with its annual output of more than 3.6 million units. This

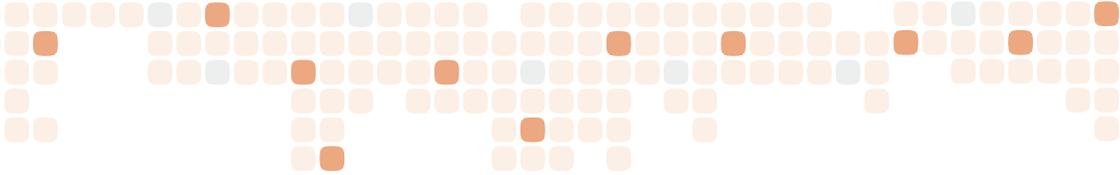


## Management Discussion and Analysis

will enable a steady supply of key components for the Group's LED backlight LCD TVs in the second half of 2010. Coupled with the production capacity of its LCD TV Integration Plant in Huizhou, the PRC, the Group expects that economies of scale will be realized in the traditional TV sales peak months of September and October of this year. Moreover, the Group's ultimate holding company, TCL Corporation, is expected to launch its 8.5 generation LCD panel line in the third quarter of 2011, and provide the Group with a strategic supply of LCD panels. By then, the Group will have advantages in both upstream and downstream of the industry chain, which will help gradually realize the Group's synergy effects in the near future.

During the second half of 2010, the Group will further optimize its overseas business. The Group will increase the market share of its THOMSON branded products in the short term, and gradually increase the proportion of TCL branded product sales in the European Markets. By enhancing supply chain management through better procurement of panels, the Group will be able to speed up the launch of new products. The Group will also take advantage of the opportunities in the Emerging Markets during the transition period from CRT TVs to LCD TVs, leveraging its market leading position in CRT TVs to garner a greater market share in the LCD TV business. In the North American Markets, the Group will continue with its brand strategy adjustment during the second half of this year and gradually introduce TCL branded TV products. The Group expects the streamlining and organizational restructuring of operations to be completed in the third quarter of this year. It will, however, take longer to promote the TCL brand in the North American Markets; therefore, market expectations should remain moderate. In addition, the Group will gradually reduce the proportion of its strategic OEM business and continue to explore more business opportunities in partnership with international brands in order to diversify its strategic OEM business customer base. In terms of AV products, the Group will actively develop Blue Ray and home theater system products, and continue to expand its product lines in order to win new customer orders and maintain an industry leading position.

In the second half of this year, the Group will continue to take advantage of the steadily growing global LCD TV market as well as the market opportunities presented by the PRC government's implementation of the "three networks convergence" project, the "Household Appliances Subsidy Scheme", the "Home Appliances Replacement Scheme" and "Promotion of Energy Efficient Appliances" policies. In addition, the management has taken a series of measures this year, including formation of an LED backlight LCD TV sales strategy, product line adjustment, supply chain enhancement, operational restructuring, clearance of inventory of obsolete TV models, alteration of its brand strategy in North America, sales channels improvement, and diversification of its strategic OEM business, combined with which will enable the Group to enhance its operational efficiency, and should therefore have a positive impact in the fourth quarter. The management's tireless efforts and strong determination will contribute to driving forward sales growth and improving the Group's profitability.



## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Significant Investments, Acquisitions and Disposals

There was no significant investment, acquisition and disposal for the six months ended 30 June 2010.

#### 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 and flexibility of funding at the lowest cost possible.

The cash and bank balances of the Group as at 30 June 2010 amounted to HK\$2,069,330,000 of which 2.4% was maintained in Hong Kong dollars, 53.6% in US dollars, 36.9% in Renminbi, 2.0% 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 2009 and there was no asset held under finance lease as at 30 June 2010.

As at 30 June 2010, the Group's gearing ratio was 8.8% which is calculated based on the Group's net borrowing of approximately HK\$328,088,000 (calculated as total interest-bearing borrowings less pledged deposits and cash and bank balances) and the equity attributable to owners of the parent of approximately HK\$3,728,295,000. The maturity profile of the borrowings is from one to five years.

#### Pledge of Assets

Please refer to notes 13 and 14.

#### Capital Commitments and Contingent Liabilities

As at 30 June 2010, the Group had capital commitments of approximately HK\$21,208,000 (31 December 2009: HK\$89,172,000) which was contracted, but not provided for. There was no significant change in contingent liabilities of the Group compared to the position outlined in the annual report for 2009.



## Management Discussion and Analysis

### **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 centralise 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 emphasises 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 27,103 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 22,819,618 shares remained outstanding at the end of the reporting period.

Award scheme (the "Award Scheme") was also adopted by the Company on 6 February 2008 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.

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2010, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

#### (A) Interests in the company – Long Positions

Name of Director	Number of ordinary Shares held		Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of the Company
	Personal interests	Family interests			
LI Dongsheng	15,411,731	–	3,194,756	18,606,487	1.713%
BO Lianming	1,807	–	340,357	342,164	0.032%
YU Guanghui	230,946	–	697,663	928,609	0.086%
SHI Wanwen	–	–	784,265	784,265	0.072%
XU Fang	–	–	147,210	147,210	0.014%
Albert Thomas DA ROSA, Junior	–	–	30,000	30,000	0.003%
HUANG Xubin	–	–	295,229	295,229	0.027%
LEONG Yue Wing	594,672	–	–	594,672	0.055%
TANG Guiliang	–	–	30,000	30,000	0.003%
Robert Maarten WESTERHOF	–	–	30,000	30,000	0.003%
WU Shihong	–	–	30,000	30,000	0.003%

## Other Information

### (B) Interests in associated corporation of the Company – Long Positions

#### TCL Corporation (Note 1)

Name of Director	Number of ordinary Shares held		Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of TCL Corporation
	Personal interests	Family interests			
LI Dongsheng	160,662,400	-	-	160,662,400	5.470%
BO Lianming	534,894	-	-	534,894	0.018%
SHI Wanwen	1,712,599	-	-	1,712,599	0.058%
XU Fang	-	20,000	-	20,000	0.001%

### (C) Interests in associated corporation of the Company – Long Positions

#### TCL Communication (Note 2)

Name of Director	Number of ordinary Shares held		Number of underlying shares held under equity derivatives	Total	Appropriate percentage of issued share capital of TCL Communication
	Personal interests	Family interests			
LI Dongsheng	24,126,120	3,000,000	8,390,888	35,517,008	3.271%
BO Lianming	65,700	-	1,824,632	1,890,332	0.174%
YU Guanghui	-	-	76,740	76,740	0.007%
SHI Wanwen	-	-	83,715	83,715	0.008%
XU Fang	-	-	1,104,528	1,104,528	0.102%
HUANG Xubin	-	-	1,535,841	1,535,841	0.141%

## Other Information

Notes:

1. TCL Corporation, a joint stock company established under the laws of the PRC, is the ultimate controlling shareholders of the Company.
2. TCL Communication Technology Holdings Limited ("TCL Communication") is a subsidiary of TCL Corporation.

Save as disclosed above, as at 30 June 2010, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

#### Long positions in shares of the Company

Shareholder	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	556,399,284 (note)	51.232%

Note:

TCL Corporation was deemed to be interested in 556,399,284 shares held by T.C.L. Industries, its direct wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 30 June 2010, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Other Information

### SHARE OPTIONS SCHEMES

The directors have estimated the values of the share options granted, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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 2010	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Price of Company's shares	
	At 1 January 2010	Reclassification	Exercised during the period	Lapsed during the period					At grant date HK\$	At exercise date HK\$
<b>Directors</b>										
<i>Executive directors</i>										
LI Dongsheng	1,799,002	-	-	-	1,799,002	4-Jul-07	6,300	Note 1	6,000	N/A
	1,395,754	-	-	-	1,395,754	25-Aug-08	2,450	Note 2	2,330	N/A
	3,194,756	-	-	-	3,194,756					
BO Lianming *	-	182,003	-	-	182,003	4-Jul-07	6,300	Note 1	6,000	N/A
	-	158,354	-	-	158,354	25-Aug-08	2,450	Note 2	2,330	N/A
	-	340,357	-	-	340,357					
YU Guanghui	338,452	-	-	-	338,452	4-Jul-07	6,300	Note 1	6,000	N/A
	359,211	-	-	-	359,211	25-Aug-08	2,450	Note 2	2,330	N/A
	697,663	-	-	-	697,663					
SHI Wanwen	295,895	-	-	-	295,895	4-Jul-07	6,300	Note 1	6,000	N/A
	488,370	-	-	-	488,370	25-Aug-08	2,450	Note 2	2,330	N/A
	784,265	-	-	-	784,265					
XU Fang	23,600	-	-	-	23,600	4-Jul-07	6,300	Note 1	6,000	N/A
	123,610	-	-	-	123,610	25-Aug-08	2,450	Note 2	2,330	N/A
	147,210	-	-	-	147,210					
	4,823,894	340,357	-	-	5,164,251					

## Other Information

Name or category of participant	Number of share options				At 30 June 2010	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share options	Price of Company's shares	
	At 1 January 2010	Reclassification	Exercised during the period	Lapsed during the period					At grant date HK\$	At exercise date HK\$
<i>Non-Executive directors</i>										
Albert Thomas DA ROSA, Junior	30,000	-	-	-	30,000	25-Aug-08	2,450	Note 2	2,330	N/A
HUANG Xubin *	72,249	-	-	-	72,249	4-Jul-07	6,300	Note 1	6,000	N/A
	222,980	-	-	-	222,980	25-Aug-08	2,450	Note 2	2,330	N/A
	295,229	-	-	-	295,229					
LEONG Yue Wing *	1,655,572	-	(410,000)	(1,245,572)	-	25-Aug-08	2,450	Note 2	2,330	8.85
TANG Guliang	30,000	-	-	-	30,000	25-Aug-08	2,450	Note 2	2,330	N/A
Robert Maarten WESTERHOF	30,000	-	-	-	30,000	25-Aug-08	2,450	Note 2	2,330	N/A
WU Shihong	30,000	-	-	-	30,000	25-Aug-08	2,450	Note 2	2,330	N/A
	2,070,801	-	(410,000)	(1,245,572)	415,229					
<b>Other employees and those who have contributed or may contribute to the Group</b>										
	9,547,033	(182,003)	(1,446,688)	(23,199)	7,895,143	4-Jul-07	6,300	Note 1	6,000	8.30
	10,240,494	(158,354)	(350,178)	(386,967)	9,344,995	25-Aug-08	2,450	Note 2	2,330	7.33
	19,787,527	(340,357)	(1,796,866)	(410,166)	17,240,138					
	26,682,222	-	(2,206,866)	(1,655,738)	22,819,618					

@ Mr. BO Lianming was appointed as an executive director of the Company effective from 14 May 2010.

\* Mr. HUANG Xubin and Mr. LEONG Yue Wing were re-designated as non-executive directors of the Company effective from 22 March 2010 and 1 April 2010, respectively.

### Note 1

One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

### Note 2

One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

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

There was no purchase, sale or redemption of shares for the six months ended 30 June 2010.

### **EVENTS AFTER THE REPORTING PERIOD**

On 20 July 2010, the Company entered into the Facility Agreement with Bank of China (Hong Kong) Limited and Standard Chartered Bank (Hong Kong) Limited as coordinating arranger pursuant to which a 4-year term loan facility of up to US\$120,000,000 was granted to the Company. Further details are set out in the Company's announcement dated 21 July 2010.

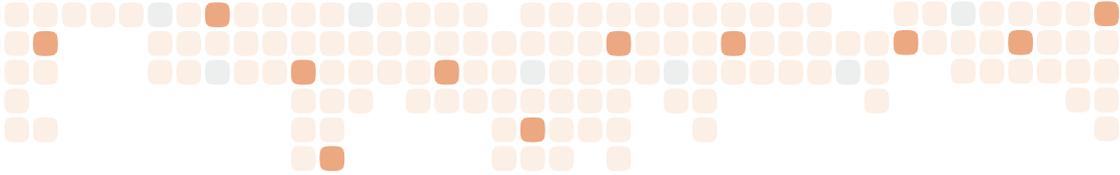
On 26 July 2010, TCL King Electrical Appliances (Huizhou) Co. Ltd ("TCL King (Huizhou)") (an indirect wholly owned subsidiary of the Company) and TCL Corporation entered into a transfer agreement pursuant to which TCL King (Huizhou) has agreed to transfer to TCL Corporation all land use rights in respect of 1,549 square meters of land located at Section 19, Zhongkai Development Zone, Huizhou, Guangdong, PRC at a consideration of RMB594,816 (equivalent to approximately HK\$681,957). Further, on 26 July 2010, TCL King (Huizhou) and Huizhou Hongshi Property Investment Co. Ltd ("Huizhou Property") entered into a transfer agreement pursuant to which TCL King (Huizhou) has agreed to transfer to Huizhou Property all land use rights in respect of 8,574.8 square meters of land located at Section 19, Zhongkai Development Zone, Huizhou, Guangdong, PRC at a consideration of RMB4,070,000 (equivalent to approximately HK\$4,666,255). Further details are set out in the Company's announcement dated 26 July 2010.

### **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 2010, complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### **AUDIT COMMITTEE**

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30 June 2010, including the accounting principles adopted by the Group, with the Company's management.



## Other Information

### CHANGES OF PARTICULARS OF THE DIRECTORS

Certain particulars of the Directors have been changed in the following respects which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Albert Thomas DA ROSA, Junior has been appointed as a non-executive director of eSun Holdings Limited effective from 19 July 2010.

### 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.

Specific enquiry has been made with all directors who have confirmed that throughout the six months ended on 30 June 2010, they have complied with the required standards set out in the Model Code and the Company's model code of conduct regarding securities transactions.

On behalf of the Board

**LI Dongsheng**

*Chairman*

Hong Kong, 26 August 2010

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