TCL 多媒體科技控股有限公司
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

# ON GLOBALIZED PLATFORM

INTERIM REPORT 2005

ON

GLOBALIZED
PLATFORM

Contents

# Corporate Information

## BOARD OF DIRECTORS

### Chairman

Mr. LI Dong Sheng

### Executive Directors

Ms. LU Zhong Li
Mr. HU Qiu Sheng
Mr. ZHAO Zhong Yao
Mr. YAN Yong, Vincent

### Non-Executive Director

Mr. Albert Thomas DA ROSA, Junior

### Independent Non-Executive Directors

Mr. TANG Guliang
Mr. WANG Bing
Mr. HON Fong Ming, Perry

## COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

## AUDITOR

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

## LEGAL ADVISOR

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

## PRINCIPAL REGISTRAR

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

## BRANCH REGISTRAR

Tengis Limited
G/F, BEA Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

## PRINCIPAL OFFICE

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

## REGISTERED OFFICE

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

## INVESTOR AND MEDIA RELATIONS

iPR ASIA LTD
Rooms 805–809
8/F, Alexandra House
16–20 Chater Road
Central, Hong Kong

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 2005 with comparative figures for the previous year as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

| | Notes | **6 months ended 30 June 2005 (unaudited) HK$'000** | 6 months ended 30 June 2004 (unaudited) (Restated) HK$'000 | **3 months ended 30 June 2005 (unaudited) HK$'000** | 3 months ended 30 June 2004 (unaudited) (Restated) HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| Sale of goods | 2 | **15,615,098** | 7,844,614 | **7,688,802** | 3,819,039 |
| Cost of sales | | **(13,026,152)** | (6,434,288) | **(6,451,834)** | (3,193,543) |
| Gross profit | | **2,588,946** | 1,410,326 | **1,236,968** | 625,496 |
| Other income and gains | | **90,854** | 70,185 | **46,341** | 47,050 |
| Selling and distribution costs | | **(1,885,021)** | (782,305) | **(832,591)** | (369,526) |
| Administrative expenses | | **(555,276)** | (282,944) | **(295,844)** | (142,224) |
| Research and development costs | | **(228,211)** | (35,541) | **(125,957)** | (17,214) |
| Other expenses | | **(35,926)** | (25,635) | **(28,485)** | (15,915) |
| Loss on disposal of a subsidiary | | **—** | (2,075) | **—** | (2,075) |
| Change in fair value of financial assets | | **(11,336)** | — | **(8,813)** | — |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | 2 | **(35,970)** | 352,011 | **(8,381)** | 125,592 |
| Finance costs | 3 | **(67,082)** | (7,936) | **(47,640)** | (4,601) |
| Share of profits and losses of jointly-controlled entities | | **1,623** | 129,956 | **552** | 45,595 |
| Amortisation of goodwill on acquisition of a jointly-controlled entity | | **—** | (39,216) | **—** | (19,608) |
| PROFIT/(LOSS) BEFORE TAX | | **(101,429)** | 434,815 | **(55,469)** | 146,978 |
| Tax | 5 | **(56,262)** | (56,861) | **(15,800)** | (26,508) |
| PROFIT/(LOSS) FOR THE PERIOD | | **(157,691)** | 377,954 | **(71,269)** | 120,470 |
| ATTRIBUTABLE TO: | | | | | |
| Equity holders of the Company | | **(95,627)** | 381,068 | **(47,614)** | 128,090 |
| Minority interests | | **(62,064)** | (3,114) | **(23,655)** | (7,620) |
| | | **(157,691)** | 377,954 | **(71,269)** | 120,470 |
| INTERIM DIVIDEND | 6 | **Nil** | 109,511 | | |
| EARNINGS/(LOSS) PER SHARE | | | | | |
| Basic | 7 | **(3.47 cents)** | 14.00 cents | | |
| Diluted | | **(3.51 cents)** | 13.49 cents | | |

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | 30 June 2005 (unaudited) HK$'000 | 31 December 2004 (audited) (Restated) HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | | **2,642,889** | 2,376,800 |
| Prepaid land lease payments | | **97,042** | 71,604 |
| Trademarks | | **23,678** | 26,506 |
| Goodwill: | | | |
| Goodwill | | **206,639** | 206,639 |
| Negative goodwill | | **—** | (559,532) |
| Interests in jointly-controlled entities | | **148,017** | 146,375 |
| Available-for-sale investments | | **18,891** | 42,301 |
| Long term receivables | | **258,773** | 283,814 |
| Prepaid royalty | | **556,213** | 620,368 |
| Deferred tax assets | | **19,725** | 18,583 |
| Total non-current assets | | **3,971,867** | 3,233,458 |
| CURRENT ASSETS | | | |
| Inventories | | **3,860,090** | 4,565,500 |
| Trade and bills receivables | 8 | **4,888,693** | 5,812,543 |
| Other receivables | | **1,407,922** | 1,318,452 |
| Tax recoverable | | **22,252** | 11,266 |
| Financial assets at fair value through profit or loss | | **67,597** | 168,460 |
| Cash and bank balances | | **1,653,575** | 1,833,272 |
| Total current assets | | **11,900,129** | 13,709,493 |

| | Notes | 30 June 2005 (unaudited) HK$'000 | 31 December 2004 (audited) (Restated) HK$'000 |
|---|---|---|---|
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 9 | **5,837,984** | 6,649,213 |
| Tax payable | | **105,720** | 110,838 |
| Other payables and accruals | | **1,313,534** | 1,656,962 |
| Provisions | | **172,309** | 239,877 |
| Bank borrowings | 10 | **797,564** | 570,119 |
| Due to a minority shareholder | 11 | **607,110** | 430,748 |
| Due to the ultimate holding company | 12 | **397,910** | 246,965 |
| Convertible notes | | **256,000** | 256,000 |
| Total current liabilities | | **9,488,131** | 10,160,722 |
| NET CURRENT ASSETS | | **2,411,998** | 3,548,771 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **6,383,865** | 6,782,229 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 10 | **1,512,205** | 1,622,134 |
| Due to a minority shareholder | 11 | **55,192** | 603,048 |
| Deferred tax liabilities | | **27,148** | 33,989 |
| Pensions and other post-employment benefits | | **116,333** | 130,050 |
| Total non-current liabilities | | **1,710,878** | 2,389,221 |
| | | **4,672,987** | 4,393,008 |
| CAPITAL AND RESERVES | | | |
| Equity attributable to equity holders of the Company: | | | |
| Issued capital | 13 | **275,877** | 275,796 |
| Reserves | | **2,981,705** | 2,584,784 |
| Proposed final dividend | | **110,346** | 110,346 |
| | | **3,367,928** | 2,970,926 |
| Minority interests | | **1,305,059** | 1,422,082 |
| | | **4,672,987** | 4,393,008 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Issued share capital HK$'000 | Share premium account HK$'000 | Capital reserve HK$'000 | Reserve funds HK$'000 | Employee share-based compensation reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 | Minority interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2004 | 268,133 | 1,273,754 | 66,204 | 492,205 | — | 39,550 | 1,708,405 | 272,000 | 100,079 | 4,220,330 |
| Prior period adjustment: | | | | | | | | | | |
| HKFRS 2 — Employee share option benefits | — | — | — | — | 4,044 | — | (4,044) | — | — | — |
| As restated | 268,133 | 1,273,754 | 66,204 | 492,205 | 4,044 | 39,550 | 1,704,361 | 272,000 | 100,079 | 4,220,330 |
| Issue of shares upon exercise of share options | 2,080 | 28,153 | — | — | — | — | — | — | — | 30,233 |
| Issue of shares upon conversion of convertible notes | 3,560 | 87,440 | — | — | — | — | — | — | — | 91,000 |
| Employee share option benefits | — | — | — | — | 2,207 | — | — | — | — | 2,207 |
| Exchange realignment | — | — | — | — | — | (6,509) | — | — | 24 | (6,485) |
| Profit for the period (as restated) | — | — | — | — | — | — | 381,068 | — | (3,114) | 377,954 |
| Final 2003 dividend | — | — | — | — | — | — | (1,544) | (272,000) | — | (273,544) |
| Dividend paid to minority shareholders | — | — | — | — | — | — | — | — | (943) | (943) |
| Contribution from minority shareholders | — | — | — | — | — | — | — | — | 31,969 | 31,969 |
| Disposal of a subsidiary | — | — | — | (198) | — | — | 198 | — | (5,033) | (5,033) |
| At 30 June 2004 (as restated) | 273,773 | 1,389,347 | 66,204 | 492,007 | 6,251 | 33,041 | 2,084,083 | — | 122,982 | 4,467,688 |
| At 1 January 2005 | 275,796 | 37,730 | 59,099 | 487,712 | — | 99,399 | 1,860,794 | 110,346 | 1,422,082 | 4,352,958 |
| Prior period and opening adjustments: | | | | | | | | | | |
| HKFRS 2 — Employee share option benefits | — | — | — | — | 8,457 | — | (8,457) | — | — | — |
| HKAS 39 — Financial instruments | — | — | — | — | — | — | 40,050 | — | — | 40,050 |
| HKFRS 3 — Derecognition of negative goodwill | — | — | — | — | — | — | 559,532 | — | — | 559,532 |
| As restated | 275,796 | 37,730 | 59,099 | 487,712 | 8,457 | 99,399 | 2,451,919 | 110,346 | 1,422,082 | 4,952,540 |
| Issue of shares upon exercise of share options | 81 | 723 | — | — | — | — | — | — | — | 804 |
| Employee share option benefits | — | — | — | — | 5,662 | — | — | — | — | 5,662 |
| Exchange realignment | — | — | — | — | — | (73,369) | — | — | (36,156) | (109,525) |
| Loss for the period | — | — | — | — | — | — | (95,627) | — | (62,064) | (157,691) |
| Dividend paid to minority shareholders | — | — | — | — | — | — | — | — | (18,803) | (18,803) |
| At 30 June 2005 | 275,877 | 38,453 | 59,099 | 487,712 | 14,119 | 26,030 | 2,356,292 | 110,346 | 1,305,059 | 4,672,987 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Net cash inflow/(outflow) from operating activities | **297,536** | (199,848) |
| Net cash inflow/(outflow) from investing activities | **(464,368)** | 15,008 |
| Net cash outflow from financing activities | **(58,461)** | (213,341) |
| **Net decrease in cash and cash equivalents** | **(225,293)** | (398,181) |
| Cash and cash equivalents at beginning of period | **1,833,272** | 1,069,562 |
| Effect of foreign exchange rate changes, net | **45,596** | (3,991) |
| **Cash and cash equivalents at end of period** | **1,653,575** | 667,390 |
| **Analysis of balances of cash and cash equivalents:** | | |
| Cash and bank balances | **1,653,575** | 667,390 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. 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 2004, except for those mentioned below.

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively the "new HKFRSs") which are effective for the accounting periods beginning on or after 1 January 2005. In the period under review, the Group has adopted, for the first time these new HKFRSs.

The adoption of these new HKFRSs has resulted in the following major changes to the Group's accounting policies that have affected the amount reported or disclosures for the current and prior year.

***HKAS 1 — Presentation of Financial Statements***

HKAS 1 affects the presentation in the condensed consolidated balance sheet and condensed consolidated income statement in respect of:

(1) Minority interests: profit and loss attributable to minority interests is disclosed as an allocation of profit and loss for the period. Minority interests are now included in the equity section of the balance sheet.

(2) Share of results of jointly-controlled entities: share of profits and losses of jointly-controlled entities is disclosed net of tax of the jointly controlled entities.

***HKAS 17 — Leases***

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

## 1. Principal Accounting Policies (Continued)

***HKAS 32 — Financial Instruments: Disclosure and Presentation***

***HKAS 39 — Financial Instruments: Recognition and Measurement***

(1) *Equity securities*

In prior periods, the Group classified its investments in equity securities as either long term or short term investments. Long term investments held for non-trading purposes were stated at cost less any impairment losses. Short term investment held for trading purposes are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis.

Upon the adoption of HKAS 32 and 39, long term investments are classified as available-for-sale investments. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Short term investments such as listed securities and mutual funds held for trading purposes are classified as financial assets at fair value through profit or loss with changes in fair value recognized in the income statement.

(2) *Call option*

An option (the "Call Option") was granted to the Company by Thomson S.A. ("Thomson") to purchase from Thomson an aggregate of no less than 2.5 million shares of Thomson at a prescribed exercise price, pursuant to a call option agreement dated 30 July 2004 entered into by the Company and Thomson. The arrangement formed part of the combination deal (the "Combination") under which the respective TV businesses and assets of the Group and Thomson were combined and managed together. Details of the Call Option have been set out in the circular of the Company dated 31 May 2004.

The adoption of HKAS 32 & 39 has resulted in retrospective recognition of the fair value of the Call Option at the date of grant and subsequent changes in its fair value in the income statement. Negative goodwill arising from the Combination and the opening balance of retained profits as at 1 January 2005 have been adjusted accordingly.

(3) *Discounted bills with recourse*

The Group's discounted bills with recourse, which were previously disclosed as contingent liabilities, have been accounted for as collateralized bank advances prospectively on or after 1 January 2005, as the financial assets derecognition conditions as stated in HKAS 39 have not been fulfilled.

1. **Principal Accounting Policies (Continued)**

***HKFRS 3 — Business Combinations***

***HKAS 36 — Impairment of assets***

***HKAS 38 — Intangible Assets***

The adoption of HKFRS 3 and HKAS 38 has resulted in a change in the accounting policy for goodwill and trademarks. Prior to 1 January 2005, goodwill and trademarks were amortised over useful life of 10 years and negative goodwill was amortised over the remaining weighted average useful life of the non-monetary assets acquired.

In accordance with the new provisions:

— The Group ceased amortization of goodwill and trademarks from 1 January 2005.

— Accumulated amortization as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and trademarks.

— The carrying amount of previously recognized negative goodwill has been derecognized as at 1 January 2005 with a corresponding adjustment to the opening balance of retained profits.

— The Group will continue to review goodwill and trademarks for impairment annually or where there are indications of possible impairment.

***HKFRS 2 — Share-based Payment***

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share options granted after 7 November 2002 and to be vested after 1 January 2005. Prior to 1 January 2005, the Group did not account for the grant of share options as expenses. Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. Such cost is recognized, together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the awards.

1. **Principal Accounting Policies (Continued)**

The effect of changes in accounting policies on the condensed consolidated income statement are as follows:

| | | Effect of adopting | | |
|---|---|---|---|---|
| | **HKFRS 2** | **HKFRS 3, HKAS 36 & HKAS 38** | **HKAS 32 & HKAS 39** | **Total effect of adoption** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **For the six months ended 30 June 2005** | | | | |
| Change in fair value of and exchange loss on the Call Option | **—** | **—** | **(6,677)** | **(6,677)** |
| Decrease in amortization of trademark with indefinite useful life | **—** | **1,083** | **—** | **1,083** |
| Increase in staff costs and related expenses | **(5,662)** | **—** | **—** | **(5,662)** |
| Total increase/(decrease) in profit attributable to equity holders of the Company | **(5,662)** | **1,083** | **(6,677)** | **(11,256)** |
| (Increase)/decrease in basic loss per share *(HK cents)* | **(0.21)** | **0.04** | **(0.24)** | **(0.41)** |
| **For the six months ended 30 June 2004** | | | | |
| Increase in staff costs and related expenses | (2,206) | — | — | (2,206) |
| Decrease in profit attributable to equity holders of the Company | (2,206) | — | — | (2,206) |
| Decrease in basic earnings per share *(HK cents)* | (0.08) | — | — | (0.08) |

**2. Segment Information**

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activities for the six months ended 30 June 2005 is as follows:

| | Turnover | | Profit/(loss) from operating activities | |
|---|---|---|---|---|
| | **2005 (unaudited)** | 2004 (unaudited) | **2005 (unaudited)** | 2004 (unaudited) (Restated) |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Television | **13,444,365** | 6,116,098 | **(31,051)** | 354,351 |
| Computers | **971,315** | 966,242 | **36,541** | 24,567 |
| Other audio-visual products | **936,243** | 530,682 | **23,038** | 14,404 |
| Others | **263,175** | 231,592 | **(13,464)** | (3,800) |
| | **15,615,098** | 7,844,614 | **15,064** | 389,522 |
| Interest income | | | **14,184** | 4,773 |
| Amortisation of goodwill | | | **—** | (17,096) |
| Corporate expenses | | | **(53,882)** | (23,113) |
| Loss on disposal of a subsidiary | | | **—** | (2,075) |
| Change in fair value of financial assets | | | **(11,336)** | — |
| | | | **(35,970)** | 352,011 |

**3. Finance Costs**

| | Six months ended | |
|---|---|---|
| | **2005 (unaudited)** | 2004 (unaudited) |
| | **HK$'000** | HK$'000 |
| Interest on: | | |
| Bank loans and facilities | **35,216** | 4,179 |
| Convertible notes | **3,840** | 3,757 |
| Loan from a minority shareholder | **10,109** | — |
| Loan from the ultimate holding company | **12,648** | — |
| | **61,813** | 7,936 |
| Charges on discounted bills and factoring costs | **5,269** | — |
| | **67,082** | 7,936 |

4. **Depreciation and Amortization**

During the period, depreciation of HK$225,263,000 (2004: HK$81,744,000) was charged to the income statement in respect of the Group's property, plant and equipment; and HK$nil (2004: HK$57,847,000) amortisation was charged to the income statement in respect of the Group's intangible assets and goodwill arising on consolidation upon the adoption of HKFRS 3 and HKAS 38.

5. **Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | | (Restated) |
| | **HK$'000** | HK$'000 |
| Current: | | |
| Hong Kong | **4,475** | 20,815 |
| Elsewhere | **60,640** | 37,469 |
| Deferred | **(8,853)** | (1,423) |
| | **56,262** | 56,861 |

6. **Interim dividend**

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: 4.0 HK cents per share).

**7. Earnings/(Loss) per Share**

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

| | Six months ended 30 June 2005 (unaudited) HK$'000 | Six months ended 30 June 2004 (unaudited) (Restated) HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit/(loss) attributable to ordinary equity holders of the parent entity used in basic earnings/(loss) per share calculation | **(95,627)** | 381,068 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes | **—** | 3,757 |
| Adjustment to minority interest upon exercise of the Exchange Option@ | **(41,178)** | — |
| Earnings/(loss) for the purposes of diluted earnings/(loss) per share | **(136,805)** | 384,825 |

| | Number of shares Six months ended 30 June 2005 | Number of shares Six months ended 30 June 2004 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation | **2,758,443,352** | 2,721,745,496 |
| Weighted average number of ordinary shares: | | |
| Assumed issued at no consideration on deemed exercise of all share options outstanding during the period | **—** | 20,243,451 |
| Assumed issued on deemed conversion of all convertible notes outstanding during the period | **—** | 111,622,728 |
| Assumed issued on deemed exercise of the Exchange Option@ outstanding during the period | **1,144,182,095** | — |
| Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation | **3,902,625,447** | 2,853,611,675 |

@ Pursuant to an exchange option agreement dated 30 July 2004 entered into between the Company and Thomson S. A. ("Thomson"), the Company granted an option (the "Exchange Option") to Thomson, the then minority shareholder of TTE Corporation ("TTE"), a subsidiary of the Company, to exchange all of Thomson's interest in TTE for new shares to be issued by the Company. Subsequent to the balance sheet date, Thomson exercised its Exchange Option and 1,144,182,095 new shares were issued to Thomson on 10 August 2005. Details of the Exchange Option have been set out in the circular of the Company dated 31 May 2004 and the announcement of the Company dated 10 August 2005.

**8. Trade and Bills Receivables**

The majority of the Group's sales in China were made on cash-on-delivery basis and on commercial bills guaranteed by banks with credit period ranging from 30 days to 90 days. For overseas sales, the Group required settlement by letter of credit with tenure ranging from 90 days to 180 days or on open-account basis with credit term of no more than 90 days. Over 40% of the sales made on open-account basis were covered by credit insurance. An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

| | **30 June 2005 (unaudited) HK$'000** | 31 December 2004 (audited) HK$'000 |
|---|---|---|
| Current to 90 days | **4,454,802** | 5,191,272 |
| 91 days to 180 days | **275,726** | 552,555 |
| 181 days to 365 days | **108,400** | 65,602 |
| Over 365 days | **49,765** | 3,114 |
| | **4,888,693** | 5,812,543 |

**9. Trade and Bills Payables**

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

| | **30 June 2005 (unaudited) HK$'000** | 31 December 2004 (audited) HK$'000 |
|---|---|---|
| Current to 90 days | **5,122,711** | 6,123,466 |
| 91 days to 180 days | **656,252** | 479,123 |
| 181 days to 365 days | **49,426** | 15,610 |
| Over 365 days | **9,595** | 31,014 |
| | **5,837,984** | 6,649,213 |

**10. Bank Borrowings**

| | 30 June 2005 (unaudited) HK$'000 | 31 December 2004 (audited) HK$'000 |
|---|---|---|
| Bank loans, unsecured | **1,983,999** | 1,986,511 |
| Trust receipt loans, unsecured | **318,414** | 205,742 |
| Advances for discounted bills, secured | **7,356** | — |
| | **2,309,769** | 2,192,253 |
| Bank loans repayable: | | |
| Within one year | **471,794** | 364,377 |
| In the second year | **94,117** | 94,118 |
| In the third to fifth year, inclusive | **1,418,088** | 1,528,016 |
| | **1,983,999** | 1,986,511 |
| Trust receipt loans | **318,414** | 205,742 |
| Advances for discounted bills | **7,356** | — |
| | **2,309,769** | 2,192,253 |
| Portion classified as current liabilities | **(797,564)** | (570,119) |
| Long term portion | **1,512,205** | 1,622,134 |

**11. Due to a Minority Shareholder**

The loan due to Thomson S.A. bears interest at 2.32% per annum (31 December 2004: 2.36% per annum), being the cost of fund of Thomson S.A., and is secured by the Group's accounts receivable with a carrying value of HK$662,302,000 (31 December 2004: HK$1,033,796,000). Such loan amount shall from the first anniversary of the closing of the Combination Agreement (i.e. 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated.

**12. Due to the Ultimate Holding Company**

The amount is unsecured and repayable within one year, and bears interest at 2.8% per annum (31 December 2004: 5.022%).

## 13. Share Capital

| | **30 June 2005 (unaudited) HK$'000** | 31 December 2004 (audited) HK$'000 |
|---|---|---|
| Authorised: | | |
| 5,000,000,000 shares of HK$0.10 each | **500,000** | 500,000 |
| Issued and fully paid: | | |
| 2,758,769,632 (31 December 2004: 2,757,960,632) shares of HK$0.10 each | **275,877** | 275,796 |

A summary of the movements in the Company's share capital is as follows:

| | **Number of shares issued** | **Paid-up nominal value** HK$'000 |
|---|---|---|
| Issued capital at 1 January 2005 | 2,757,960,632 | 275,796 |
| Share options exercised | 809,000 | 81 |
| Issued capital at 30 June 2005 | 2,758,769,632 | 275,877 |

Details of the movements in respect of the share option during the period are set out under the "Share options" section on page 31.

**14. Related Party Transactions**

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

| | Six month ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Jointly-controlled entities: | | |
| Sale of raw materials | **546,760** | 672,881 |
| Sale of finished goods | **47,854** | — |
| Purchase of finished goods | **492,117** | 641,692 |
| The ultimate holding company and its affiliates: | | |
| Sales of raw materials | **228** | 11,208 |
| Purchases of raw materials | **179,871** | 279,808 |
| Purchase of finished goods | **31,799** | 37,776 |
| Sales handling fee income | **—** | 667 |
| Subcontracting fee expense | **6,411** | 8,216 |
| Interest expense | **12,648** | — |
| Thomson S.A. and its affiliates: | | |
| Purchases of raw materials | **890,368** | — |
| Purchases of finished goods | **759,544** | — |
| Agency fee and cost reimbursement expenses | **679,994** | — |
| Styling service fee expense | **8,954** | — |
| Shared service fee expense | **112,401** | — |
| Interest expense | **10,109** | — |
| Royalty expense | **8,618** | — |
| Reimbursement of brand advertising costs | **8,198** | — |
| Strategic sourcing fee expense | **14,560** | — |

## 14. Related Party Transactions (Continued)

(b) Outstanding balances with related parties

| | Due from related parties | | Due to related parties | |
|---|---|---|---|---|
| | **30 June 2005 (unaudited) HK$'000** | 31 December 2004 (audited) HK$'000 | **30 June 2005 (unaudited) HK$'000** | 31 December 2004 (audited) HK$'000 |
| Jointly-controlled entities | **33,693** | 35,047 | **9,696** | 60,512 |
| The ultimate holding company and its affiliates | **148,547** | 19,633 | **577,267** | 492,829 |
| Thomson S.A. and its affiliates | **893,383** | 444,095 | **1,652,940** | 2,463,861 |

## BUSINESS REVIEW

Competition in the global consumer electronics market remained tough in the first half of 2005. Rapid technological developments shortened product life cycles, driving down selling prices at a speed faster than ever before. Manufacturers were challenged with their capabilities in product development, supply chain management, sales and marketing as well as inventory control. As a global leader in the TV industry, TCL has implemented a series of strategies in the first half of the year to counterbalance the negative factors and to enhance its competitiveness in its core markets.

The Group continued to consolidate its business through a series of restructuring and cost reduction programmes within TTE to capture benefits from procurement, R&D and manufacturing brought forth by economies of scale. Numerous cost reduction programmes known as "Best in Cost programmes" were implemented to improve overall production cost structure. Restructuring programmes to streamline organization were carried out not only in the profit centres of Europe and North America, but also in various functional divisions such as R&D centres and procurement centres. All of these programmes made good progress and the resulting benefits started to emerge. In addition to these ongoing restructuring efforts, in July this year, the Group reached a definitive agreement with Thomson, finalizing the transfer of sales and marketing activities from Thomson to TTE. Consequently, TTE gained direct control of its sales and marketing activities in Europe and North America. This move entails a better business model with closer ties between functions of sales and marketing, supply chain, production and after-sale services. These initiatives are expected to substantially enhance efficiency and reduce the overall operating costs of the Group.

### TV Business

The TV business is the Group's major source of revenue. For the six months ended 30 June 2005, a total of 9.8 million sets of TVs were sold worldwide, representing a growth of 63.8% over the same period last year. Sales revenue increased by 119.8% to HK$13,444 million, accounting for 86% of the Group's total turnover.

In terms of geographical markets, the PRC market continued to be the major revenue stream for the TV business, accounting for 36.4% of the total TV sales, followed by Europe and North America which accounted for 26.6% and 23.6% of the TV sales respectively. Amongst the Group's five core profit centres, the PRC, Emerging Markets and the Strategic OEM business continued to record profit. The Emerging Markets and Strategic OEM business continued to expand with new markets and new customers, bringing greater opportunities to the Group. While better-than-expected performance was seen in the North American market as a result of the diversified product range and better channel strategy, operations of the European market were adversely affected by keen competition.

The Group reported an operating loss of HK$31 million for the six months ended 30 June 2005. While the second quarter was a low season in the PRC market, leading to a reduced contribution from the PRC, the Group benefited from the synergies generated from the European and North American operations, and thereby recorded a narrowed quarter-on-quarter loss in these markets.

| | TV Unit Sales Unaudited results for the SIX months ended 30 June | | |
|---|---|---|---|
| | **2005** | 2004 | Change |
| | **('000 sets)** | ('000 sets) | |
| — PRC | **4,144** | 3,747 | +10.6% |
| — Europe | **1,302** | 102 | not comparable |
| — North America | **1,396** | not applicable | not comparable |
| — Emerging Markets | **1,494** | 1,394 | +7.2% |
| — Strategic OEM | **1,439** | 723 | +99.0% |
| Total TV Units | **9,775** | 5,966 | +63.8% |

**The PRC Market**

The Group continued to outperform its peers and maintained its leading position in the market with a dominant share of 20% for the first six months of 2005, according to the MII report, as compared to 19% in the same period of last year.

Sales revenue from the PRC market amounted to HK$4,895 million. A total of 4.1 million sets of TVs were sold in the first half of 2005, of which TCL brand and Rowa brand TVs accounted for 3.5 million sets and 0.6 million sets respectively. Encouragingly, after two years' hard work for promoting Rowa brand TVs, the Group successfully established the position of Rowa brand TVs as competitively priced products for mass consumers. Unit sales of Rowa TVs posted an encouraging year-on-year growth of 113%.

During the first half of 2005, the overall market demand for CRT TVs was not strong as apparently the consumers' appetite was increasingly shifting towards flat TVs. Manufacturers from all over the world participated in the flat TV market, leading to decreases in selling price of flat TVs. The price war in flat TVs made consumer delay their consumption as they tended to wait for possible further reduction in price, dampening the overall demand for TVs in the second quarter, which was weaker than the same period last year. The Group also experienced a mild year-on-year decline in unit sales in the second quarter this year.

In response to market demand, the Group invested further in the development of high end TVs and introduced a total of 61 new models including 12 models of LCD TVs, driving up the Group's market share in the LCD segment to 10%, according to the China Market Monitor report (previously known as China Economy Consultancy) of May 2005.

**Europe**

The market position of the Group's Thomson brand TVs saw improvements in Europe during the period under review. According to GFK April–May 2005 report, Thomson brand TV ranked the fifth in the European market with a 6% market share.

Sales revenue from the European market amounted to HK$3,572 million for the six months ended 30 June 2005. The European market sold a total of 1.3 million sets of TVs during the first half of the year, of which Thomson and Schneider brands each accounted for 1,229,000 sets and 73,000 sets respectively.

Against a highly competitive backdrop, operating environment in the European market remained tough. Sales of CRT TVs declined as market demand shifted towards flat LCD TVs. The Group seized market opportunities and recorded robust year-on-year growth of 132% in sales volume for its flat TVs. Despite this, fierce competition brought a drastic drop in the average selling price and further placed the profit margin of the European profit centre under pressure.

The Group offered a wide array of TVs through its multiple sales channels to reach out to all market segments. In keeping up with the latest market trends, the Group increased investment in high-end products. Six new models were launched in the first half of 2005, including a stylish and high-tech DLP model 50DSZ644 which received the prestigious EISA award for 2005–06 elected by a panel of European journalists. With a strong product portfolio, TTE successfully entered the private label market and attracted chained retailers to be its customers.

### North America

The market share of RCA brand TVs in the North American market increased to 9% and was ranked among the top three brands in the market according to Synovate Jan–May 2005.

The Group's performance in the North American market was better than expected, with sales revenue amounting to HK$3,178 million and unit sales amounting to 1.4 million sets for the six months ended 30 June 2005.

By leveraging on its improved cost structure in manufacturing and capability in producing high end TVs, the Group secured several new regional mass merchant accounts, which will pave the way for further increasing the Group's turnover in the North American market in the future. At the same time, the Group supplied a range of high quality digital products (CRT-based RPTV models) at affordable prices to the mass market and boosted sales substantially. Gross and operating margins were widened as a result of higher market penetration, better raw materials costs and tighter operating cost controls.

Additionally, the Group refined its sales strategy to focus more effort on its largest customers. Overall speaking, the North American market showed significant improvements during the period under review.

### Emerging Markets

The Emerging Markets continued to post strong volume growth. Sales revenue increased by 13.3% to HK$1,007 million and a total of 1.5 million sets of TVs were sold in the six months ended 30 June 2005, representing a year-on-year growth of 7.2%.

With an established international network, sales of TCL brand TVs generated by the Group's overseas branch offices surged substantially by 225% to 700,000 sets as compared with the same period last year. To capitalise on market opportunities, the Group opened new offices in the Middle East and Panama in the first half of 2005 and is planning to establish new branches in other markets such as Pakistan and Brazil in the second half of 2005.

**Strategic OEM**

In parallel to the development of Emerging Markets, Strategic OEM business also reported strong growth. Sales revenue increased by 88.7% to HK$792 million and unit sales amounted to 1.4 million sets in the six months ended 30 June 2005, representing a year-on-year growth of 99% by volume.

Appreciating the high quality standard of the Group's products and services, the existing customers continuously increased their order volume and the Group's products were sold in more countries.

On top of the existing customers, the Group also developed new accounts proactively and started to work with internationally renowned customers to produce theme decorated TVs to broaden its product variety. At the appropriate opportunity, the Group has also been promoting high end models in selected markets to improve the gross margin. Geographically, the Group is exploring OEM business opportunities in the ASEAN countries, Africa and Latin America.

**PC Business**

The Group maintained its position as one of the top 5 players in the PRC desktop PC segment, with a 4% market share, according to the CCID report for the first quarter of 2005.

Sales revenue from the PC business amounted to HK$971 million, representing a year-on-year growth of 0.5% and accounting for 6.2% of the Group's total turnover. Sales volume of PCs rose by 7.1% year-on-year to a total of 331,000 units. The growth was mainly due to the increase of sales of consumer PCs.

The Group deployed additional resources to uplift the image of TCL products. More high-end products such as PCs with LCD monitors were sold, enhancing the product mix and driving up the gross margin during the period under review. The Group reduced the layers in distribution channels, leading to a simpler and slimmer structure. As a result, the sales head count was reduced and the operational efficiency was greatly enhanced. Meanwhile the Group placed greater efforts in R&D with an aim to enrich its notebooks and desktop PC product offering.

## FUTURE PLANS

Looking ahead into the second half of 2005, the Group expects challenges and difficulties to remain as keen as in the first half of the year. The Group will continue to solidify its domestic leadership, improve performances in the North American and European markets, and eventually achieve a turnaround.

Having completed the majority of the contemplated restructuring following the formation of TTE, we are pleased to see that Thomson has exercised its exchange options and is now the second single largest shareholder of the Group after TCL Corporation. We believe such international shareholding structure will help the Group to restore its profitability as scheduled.

On the product front, flat TVs are taking the lead in the mainstream product market across different regions. To sharpen its competitive edge, the Group will reorganize its global strategy for the production and sales of flat screen TVs. The Group has already laid a solid foundation and has established an edge in terms of R&D, production know-how, cost control and pricing. The ultimate goal is to shift the product portfolio towards the higher-end models with wider offering. The Group is well positioned to capture market growth.

The Group continued to implement strategies to realize synergies and to reduce costs. Restructuring and cost saving plans continued to be executed and have led to certain synergies in procurement, R&D and manufacturing. The finalization of the transfer of sales and marketing functions from Thomson to TTE has enabled TTE to gain direct control over its sales force in Europe and North America, creating stronger internal links between sales and marketing and other functions. Operating cost is expected to further go down. The Group expects the effects of stringent cost controls and reorganized business strategies will become more apparent in the second half of 2005.

The Board of Directors is confident that the Group will turn around its business and create remarkable value for shareholders in the long run.

## FINANCIAL REVIEW

The commencement of TTE's operations brought about changes to the Group's operations as well as to its financial performance. While the Group evolved from primarily a PRC-focused TV player into a global TV manufacturer on an international platform, our financial performance also reflected this change.

For the six months ended 30 June 2005, the Group's consolidated turnover amounted to HK$15,615 million, representing a year-on-year growth of 99.1% and the gross profit also increased by 83.6% to HK$2,589 million. The strong growth in revenue and gross profit is mainly due to the inclusion of European and North American businesses which were formerly Thomson TV business.

However, as the gross profit margin of the overseas business is for the time being still lower than that of the PRC, the Group's overall gross profit margin was lowered to 16.6% (2004: 18.0%).

An operating loss of HK$36 million was recorded during the period under review, as the loss of the North American and European businesses acquired from Thomson was higher than the sum of the profits from other profit centres, despite the improved performance of these two profit centres as compared with the same period last year when they were operated by Thomson.

The PRC market showed stable performance in the first half of 2005 and continued to be the Group's major revenue stream. The North American market outperformed our expectations as a result of the implementation of effective cost control initiatives and restructuring measures. Nevertheless, with the drastic decline in flat panel TV prices driven by keen competition, the performance of the European market was unsatisfactory with a loss against the Group's expectation.

Moving ahead, the Group anticipates that synergies will be more apparent starting from the second half of the year following the completion of business restructuring of TTE. Efficiencies will be further enhanced as business integration continues to take place. The Group expects that profitability will be achieved for the full year of 2005 and in the years ahead.

### Significant Investments and Acquisitions

There was no significant investment or acquisition during the period.

Subsequent to the balance sheet date, the following investments and movements were recorded:

(1) On 4 July 2005, the Group entered into an acquisition agreement with TCL Corporation, the ultimate controlling shareholder of the Company, for the acquisition of 49% equity interest in TCL Electrical Appliance Sales Co, Ltd. ("Sales Company") which controls and operates a distribution and after-sales services network in the PRC. Upon completion of the acquisition, the Group will own the entire equity interest of the Sales Company. Further details of the acquisition are set out in the Company's announcement dated 5 July 2005.

(2) On 12 July 2005, the Group and Thomson Group entered into definitive agreements for the transfer of the sales and marketing activities in Europe and North America from Thomson to TTE. TTE and Thomson also agreed on the terms of a number of related agreements to modify the existing operational arrangement of the Angers factory in France, and to revise certain sales and marketing and service arrangements between the two groups. These agreements will enable TTE to directly manage its sales and marketing activities, and provide the basis for improving the Company's ability to serve customers and coordinate product planning, pricing marketing and business strategy. For further details, please refer to the Company's announcement dated 12 July 2005 and the Company's circular dated 2 August 2005.

(3) On 26 July 2005, the Company entered into a sale and purchase agreement with Opta Systems, LLC ("Opta"), a company controlled by TCL Corporation, to purchase certain intellectual property rights including trademarks, service marks, patents applications and copyrights at an initial consideration of US$10 million, subject to adjustments by reference to a valuation to be determined by an independent valuer to be appointed by the Company and Opta. Further details of the transaction are set out in the Company's announcement dated 29 July 2005.

(4) On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004, Thomson exercised an exchange option to exchange its 33% interest in TTE for an interest in the Company. A total of 1,144,182,095 shares representing 29.32% of the enlarged issued share capital of the Company were issued to Thomson. For further details, please refer to the Company's announcement dated 10 August 2005.

## Liquidity and Financial Resources

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

The cash and bank balance as at the period end amounted to HK$1,654 million, of which 12% was maintained in Hong Kong dollars, 25% in US Dollars, 47% in Renminbi, 6% in Euro and 10% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2004 and there was no asset held under finance lease at the period end. A convertible note which was due for redemption on 8 November 2005, was subject to fixed interest rate at 3% per annum.

At the period end, the Group's gearing ratio was 0.59 which is calculated based on the Group's net borrowing of approximately HK$1,972 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the Company of approximately HK$3,368 million.

## Capital Commitments and Contingent Liabilities

There was no significant change in capital commitments and contingent liabilities of the Group compared to the position outlined in the annual report for 2004.

## Foreign Exchange Exposure

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

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

## EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 33,000 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Total staff costs for the period were approximately HK$941 million. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. During the period options for subscribing a total of 152,920,000 shares were granted to directors and employees at an exercise price of HK$1.40. Options for subscribing a total of 183,342,861 shares remained outstanding at the period end. Employee share option expenses of HK$5,662,000 was charged to the income statement for the period under review.

## DIRECTORS' INTERESTS

As at 30 June 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities (the "Listing Rules") were as follows:

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

| Directors | Capacity | No. of shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Li Dong Sheng | Beneficial owner | 23,232,000 | 0.84% |
| Zhao Zhong Yao | Beneficial owner | 232,000 | 0.008% |

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

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

| Name or category of participant | At 1 January 2005 | Granted during the period | Reclassification | Exercised during the period | Lapsed during the period | At 30 June 2005 | Date of grant | Exercise price HK$ | Exercise period | Price of Company's shares at grant date# HK$ | Price of Company's shares at date of exercise* HK$ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | |
| *Executive directors* | | | | | | | | | | | |
| Li Dong Sheng | — | 5,000,000 | — | — | — | 5,000,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Lu Zhong Li | — | 2,500,000 | — | — | — | 2,500,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Hu Qiu Sheng | — | 2,500,000 | — | — | — | 2,500,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Yan Yong | 68,000 | — | — | — | — | 68,000 | 30 January 2003 | 2.114 | Note 3 | 2.075 | N/A |
| | — | 3,450,000 | — | — | — | 3,450,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| | 68,000 | 3,450,000 | — | — | — | 3,518,000 | | | | | |
| Zhao Zhong Yao | 68,000 | — | — | — | — | 68,000 | 30 January 2003 | 2.114 | Note 3 | 2.075 | N/A |
| | — | 3,200,000 | — | — | — | 3,200,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| | 68,000 | 3,200,000 | — | — | — | 3,268,000 | | | | | |
| Suen Hay Wai@ | 234,000 | — | (234,000) | — | — | — | 30 January 2003 | 2.114 | Note 3 | 2.075 | N/A |
| | — | 950,000 | (950,000) | — | — | — | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| | 234,000 | 950,000 | (1,184,000) | — | — | — | | | | | |
| *Non-Executive directors* | | | | | | | | | | | |
| Albert Thomas da Rosa, Junior | — | 300,000 | — | — | — | 300,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Tang Guliang | — | 300,000 | — | — | — | 300,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Wang Bing | — | 300,000 | — | — | — | 300,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| Hon Fong Ming | — | 300,000 | — | — | — | 300,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| **Other employees** | 1,894,000 | — | — | (809,000) | (1,085,000) | — | 29 October 2001 | 0.994 | Note 1 | 0.990 | 1.886 |
| | 10,000,000 | — | — | — | — | 10,000,000 | 4 November 2002 | 2.305 | Note 2 | 2.175 | N/A |
| | 20,052,861 | — | 234,000 | — | — | 20,286,861 | 30 January 2003 | 2.114 | Note 3 | 2.075 | N/A |
| | — | 134,120,000 | 950,000 | — | — | 135,070,000 | 31 May 2005 | 1.400 | Note 4 | 1.410 | N/A |
| | 31,946,861 | 134,120,000 | 1,184,000 | (809,000) | (1,085,000) | 165,356,861 | | | | | |
| | 32,316,861 | 152,920,000 | — | (809,000) | (1,085,000) | 183,342,861 | | | | | |

@ Mr. Suen Hay Wai has retired as an executive director of the Company at the conclusion of the annual general meeting of the Company held on 22 June 2005

# The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options

* The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

*Note 1* One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

*Note 2* Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

*Note 3* One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

*Note 4* One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 30 November 2008.

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

| Directors | Name of associated corporation | Capacity | No. of shares held | Approximate percentage of issued share capital of associated corporation |
|---|---|---|---|---|
| Li Dong Sheng | TCL Corporation | Beneficial owner | 144,521,730 | 5.59% |
| Li Dong Sheng | TCL Communication Technology Holdings Limited | Beneficial owner | 18,080,800 | 0.64% |
| Lu Zhong Li | TCL Corporation | Beneficial owner | 23,569,661 | 0.91% |
| Hu Qiu Sheng | TCL Corporation | Beneficial owner | 19,012,888 | 0.74% |
| Zhao Zhong Yao | TCL Corporation | Beneficial owner | 6,444,954 | 0.25% |
| Zhao Zhong Yao | TCL Communication Technology Holdings Limited | Beneficial owner | 92,800 | 0.003% |

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

| Directors | Name of associated corporation | Capacity | No. of shares held | Percentage of issued share capital of the associated corporation |
|---|---|---|---|---|
| Li Dong Sheng | TCL Communication Technology Holdings Limited | Beneficial owner | 5,000,000 | 0.18% |
| Lu Zhong Li | TCL Communication Technology Holdings Limited | Beneficial owner | 2,500,000 | 0.09% |
| Hu Qiu Sheng | TCL Communication Technology Holdings Limited | Beneficial owner | 2,500,000 | 0.09% |
| Zhao Zhong Yao | TCL Communication Technology Holdings Limited | Beneficial owner | 800,000 | 0.028% |
| Yan Yong | TCL Communication Technology Holdings Limited | Beneficial owner | 1,050,000 | 0.04% |

Save as disclosed above, as at 30 June 2005, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to any Director or chief executive of the Company, as at 30 June 2005, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register kept by the Company under Section 336 of the SFO were as follows:

**Long Positions in shares of the Company:**

| Shareholders | Capacity | No. of shares held | % of issued share capital of the Company |
|---|---|---|---|
| T.C.L. Industries Holdings (H.K.) Ltd. | Beneficial owner | 1,512,121,289 *(Note 1)* | 54.81% |
| TCL Corporation | Interest of controlled corporation | 1,512,121,289 *(Note 1)* | 54.81% |

*Note 1:* TCL Corporation is deemed to be interested in 1,512,121,289 shares of the Company through T.C.L. Industries Holdings (H.K.) Ltd., its direct wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 30 June 2005, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## PURCHASES, SALE OR REDEMPTION OF SHARES

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

## CORPORATE GOVERNANCE

Save as disclosed below, none of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for the six months ended 30 June 2005, complied with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which became effective from 1 January 2005.

Under the Code provision A4.2, every director should be subject to retirement by rotation at least once every three years. Under the previous Articles of Association of the Company, apart from the managing director, one third of the Directors shall retire from office by rotation at each annual general meeting of the Company. To ensure compliance with such Code provision, relevant amendments to the Articles of Association were proposed and approved by the shareholders at the annual general meeting held on 22 June 2005 so that now all directors are subject to retirement by rotation at least once every three years.

For the purpose of compliance with the Code provision B.1.1 of the CG Code, the Board has resolved on 16 April 2004 to establish a remuneration committee and adopted terms of reference for such committee in compliance with the Code provision B.1.3 of the CG Code. On 30 August 2005, Mr. Wang Bing, Mr. Tang Guliang and Mr. Hon Fong Ming, the independent non-executive directors, Mr Albert Thomas da Rosa, Junior, the non-executive director and Ms Lu Zhong Li, an executive director of the Company were appointed as the members of the remuneration committee with Mr. Wang Bing being the chairman of the committee.

## REVIEW OF ACCOUNTS

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

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

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

As at the date of this report, the Board comprises Li Dong Sheng, Lu Zhong Li, Hu Qiu Sheng, Zhao Zhong Yao and Yan Yong as executive directors, Albert Thomas da Rosa, Junior as non-executive director and Tang Guliang, Wang Bing and Hon Fong Ming as independent non-executive directors.

On behalf of the Board
**LI Dong Sheng**
*Chairman*

Hong Kong, 30 August 2005