TCL 多媒體科技控股有限公司

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1070)

RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2006

FINANCIAL HIGHLIGHTS

	2006 *(HK$M)*	2005 *(HK$M)*	**Change**
Turnover	**8,088**	7,926	+2%
Loss before tax	**(98)**	(46)	N/A
Loss for the period attributable to equity holders of the parent	**(139)**	(48)	N/A
Basic loss per share (HK cents)	**(3.56)**	(1.74)	N/A

OPERATIONAL HIGHLIGHTS

– Overall product mix enhanced, with high-end TVs taking up 34% of TV revenue

– Continued to outperform its peers despite a contraction in the PRC's market size

– Reduced loss substantially in the North American market

– Operating environment of the European market remained tough

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 three months ended 31 March 2006 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
THREE MONTHS ENDED 31 MARCH 2006

		Unaudited	
		Three months ended 31 March	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2*	**8,088,335**	7,926,296
Cost of sales		**(6,790,214)**	(6,574,318)
Gross profit		**1,298,121**	1,351,978
Other revenue and gains		**77,465**	44,513
Selling and distribution costs		**(962,674)**	(1,052,430)
Administrative expenses		**(273,055)**	(259,432)
Research and development costs		**(126,738)**	(102,254)
Other operating expenses		**(38,851)**	(7,441)
LOSS FROM OPERATING ACTIVITIES		**(25,732)**	(25,066)
Fair value losses of equity investments at fair value through profit or loss		**(8,601)**	(2,523)
Finance costs		**(63,465)**	(19,442)
Share of profits and losses of jointly-controlled entities		**(399)**	1,071
LOSS BEFORE TAX		**(98,197)**	(45,960)
Tax	*3*	**(39,657)**	(40,462)
LOSS FOR THE PERIOD		**(137,854)**	(86,422)
Attributable to:			
Equity holders of the parent		**(139,128)**	(48,013)
Minority interests		**1,274**	(38,409)
		(137,854)	(86,422)
DIVIDENDS	*4*		
Interim		**–**	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*5*		
Basic		**HK (3.56) cents**	HK (1.74) cents
Diluted		**HK (3.56) cents**	HK (1.84) cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2006

	Notes	31 March 2006 Unaudited HK$'000	31 December 2005 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,656,612	2,722,422
Prepaid land lease payments		61,655	62,623
Goodwill		206,639	206,639
Other intangible assets		90,765	91,993
Interests in jointly-controlled entities		157,725	157,088
Available-for-sale equity investments		14,834	14,773
Long term receivables		338,491	358,774
Prepaid royalty		566,539	563,674
Deferred tax assets		22,483	27,690
Total non-current assets		4,115,743	4,205,676
CURRENT ASSETS			
Inventories		3,846,869	4,599,339
Trade and bills receivables		5,084,796	6,036,973
Other receivables		1,146,300	1,270,343
Tax recoverable		24,755	39,089
Equity investments at fair value through profit or loss		49,086	47,594
Pledged deposits		49,565	90,165
Cash and bank balances		1,501,520	1,861,957
Total current assets		11,702,891	13,945,460
CURRENT LIABILITIES			
Trade and bills payables		5,696,882	6,867,142
Tax payable		128,823	145,985
Other payables and accruals		1,771,045	1,916,671
Provisions		144,153	197,402
Interest-bearing bank and other borrowings	6	1,333,581	3,481,045
Due to a shareholder		472,308	536,364
Due to the ultimate holding company		681,194	717,863
Total current liabilities		10,227,986	13,862,472
NET CURRENT ASSETS		1,474,905	82,988
TOTAL ASSETS LESS CURRENT LIABILITIES		5,590,648	4,288,664
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	6	1,435,253	–
Deferred tax liabilities		24,034	24,057
Pensions and other post-employment benefits		175,070	165,615
Total non-current liabilities		1,634,357	189,672
Net assets		3,956,291	4,098,992
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		390,295	390,295
Reserves		3,455,659	3,600,221
		3,845,954	3,990,516
Minority interests		110,337	108,476
Total equity		3,956,291	4,098,992

Notes:

1 **BASIS OF PREPARATION**

The unaudited quarterly financial statements have been reviewed by the Audit Committee.

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity instruments, which have been measured at fair value. 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 2005. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

2. **SEGMENT INFORMATION**

An analysis of the Group's turnover and segment results by principal activities for the three months ended 31 March 2006 is as follows:

	Turnover		**Segment results**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Television	**7,095,192**	6,957,776	**(17,268)**	(35,494)
Computer	**578,299**	438,188	**10,750**	11,796
Audio-visual	**290,144**	370,674	**(1,255)**	10,647
Others	**124,700**	159,658	**(4,004)**	(3,550)
	8,088,335	7,926,296	**(11,777)**	(16,601)
Interest income			**7,853**	11,534
Corporate expenses			**(21,808)**	(19,999)
Finance costs			**(63,465)**	(19,442)
Share of profits and losses of jointly–controlled entities			**(399)**	1,071
Fair value losses of equity investments at fair value through profit or loss			**(8,601)**	(2,523)
Loss before tax			**(98,197)**	(45,960)
Tax			**(39,657)**	(40,462)
Loss for the period			**(137,854)**	(86,422)

3. **TAX**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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.

	Three months ended 31 March	
	2006	2005
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	**2,370**	2,795
Current – Elsewhere		
Charge for the period	**31,687**	38,965
Deferred	**5,600**	(1,298)
Total tax charge for the period	**39,657**	40,462

4. **DIVIDENDS**

The directors of the Company do not recommend the payment of any dividend in respect of the three months ended 31 March 2006 (2005: Nil).

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

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

	Three months ended 31 March	
	2006	2005
	HK$'000	*HK$'000*
Loss		
Net loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(139,128)**	(48,013)
Effect of dilutive potential ordinary shares:		
Adjustment to minority interest upon exercise of the Exchange Option	**–**	(23,772)
Loss for the purpose of diluted loss per share	**(139,128)**	(71,785)

	Number of shares Three months ended 31 March	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the period used in basic loss per share calculation	**3,902,951,727**	2,758,122,999
Effect of dilution – Weighted average number of ordinary shares:		
Assumed deemed exercise of the Exchange Option@ outstanding during the period	**–**	1,149,140,810
Weighted average number of ordinary shares used in diluted loss per share calculation	**3,902,951,727**	3,907,263,809

@ Pursuant to an exchange option agreement, the Company granted an option (the "Exchange Option") to Thomson S.A., the then minority shareholder of TTE Corporation (a subsidiary of the Company), to exchange all of Thomson S.A.'s interest in TTE Corporation for new shares issued by the Company. The option was exercisable from 27 September 2004 to 16 July 2005. Details of the Exchange Option were set out in the circular of the Company dated 31 May 2004.

6. INTEREST-BEARING BANK AND OTHER BORROWINGS

At 31 December 2005, the Company breached certain financial covenants of bank loans with an aggregate carrying amount of HK$1,538.3 million, under which the lenders were entitled to demand the Company for immediate payment of the entire outstanding amount. In accordance with paragraph 65 of HKAS 1, the entire outstanding amount under the bank loans should be treated as a current liability of the Company. The Company subsequently obtained from the lenders waivers of the said breaches under the relevant loan agreements on 31 March 2006, which means that the lenders have effectively waived their rights to demand payment. The long term portion of the bank loans was therefore re-classified as a non-current liability at 31 March 2006.

Business Review

Market competition in the global TV market remained fierce in the first quarter of 2006. It was one of the toughest periods for the Group on both operational and financial fronts, primarily because (i) after turning TTE into a wholly-owned subsidiary in the third quarter of 2005, the Group had to bear all the losses arising from the European and North American markets before these markets become profitable and (ii) it was also the low season for the European and North American markets.

Owing to the above reasons, the Group recorded a loss attributable to equity holders of the parent of HK$139 million, as compared to a loss of HK$48 million in the first quarter last year.

TV Business

For the three months ended 31 March 2006, TV sales revenue amounted to HK$7,095 million, denoting an increase of 2% as compared to the same period last year. It accounted for 88% of the Group's total turnover (2005: 88%). A total of 5.41 million sets of TVs were sold worldwide, representing a year-on-year increase of 7%.

Having established the flat panel TV division in the fourth quarter of 2005, to better utilize its global resources for the flat panel TV business, the Group successfully improved its product mix. High-end TVs (consisting of flat panel TVs and rear projection TVs) accounted for 34% of the total TV sales revenue in the first quarter.

It is worth noting that the Group ranked among the top 3 in the global market by volume according to the latest market data provided by iSuppli. On top of this leading position in overall TV market, the Group is quickly picking up its shares in the flat panel TV segment. It is a result of its constant efforts in enhancing its product mix and offering a wide range of products to meet the needs of different markets.

	1Q2006 ***('000)***	1Q2005 *('000)*	**Change**
TV Unit Sales	**5,408**	5,051	7.1%
The PRC	**2,224**	2,598	-14.4%
Europe and North America	**1,368**	1,259	8.7%
Emerging Markets and Strategic OEM	**1,816**	1,194	52.1%
PC Unit Sales	**176**	151	16.6%

The PRC Market

According to China Market Monitor (a leading market research company for the TV industry of the PRC), the CRT TV sales declined while the LCD TV continued its growth momentum in the first quarter. The overall TV market experienced a contraction of 18% by volume which was primarily due to the shrinkage of the CRT TV market. In line with the market trend, while the Group's overall TV unit sales recorded a decline of 14% to 2.22 million sets during the first quarter, the unit sales of LCD TVs was four times of the first quarter of 2005. Reflecting the shipment trend, the Group's sales revenue from the PRC market decreased by 11% to HK$2,655 million for the three months ended 31 March 2006 and accounted for 38% of the total TV sales.

Owing to the high growth of LCD TVs, high-end TVs accounted for 25% of the total TV sales revenue in the PRC market in the quarter under review as compared to 11% in the corresponding period of last year.

As competition on flat panel TV was tougher than the CRT TV and projection TV, resulting in a lower gross margin and flat panel TV was making up a larger portion of the Group's TV sales in the PRC, the overall profit margin trended down slightly. To counter-balance the declining margin, the Group launched a total of 25 new models in the first quarter and put more resources on promoting the high-end models. Consequently, the Group was able to outperform its peers and maintain a stable market position.

The PRC market generated an operating profit of HK$134 million during the first three months this year.

European and North American Market

Sales revenue in the European and North American market rose by 4% to HK$3,278 million during the quarter under review and accounted for 46% of the Group's total TV sales. The Group sold a total of 1.37 million sets of TVs in these two markets.

In the European market, the Group adjusted its business strategy in the fourth quarter last year by focusing on key product lines and key customers. However, the results were yet to be reflected in its performance as the loss widened as compared to the same period last year. On the other hand, the performance in the North American market was in line with management's expectation and the loss incurred was substantially reduced. This attests to the Group's capability of managing business development efficiently in many aspects from product development, sales and marketing, to cost management.

Adding up the two markets, the operating loss amounted to HK$210 million, as compared to a loss of HK$246 million during the same period last year.

European Market

The market demand in the European market underwent rapid changes. The switch from CRT TV to flat panel TVs further accelerated. According to GfK report, the European CRT TVs market witnessed a 37% decrease in revenue, while the LCD/PDP posted a strong growth of 133% in revenue during the first quarter this year.

The key focuses of the Group in the first quarter were placed on raising profitability and strengthening relationship with key customers. The strategy was to address the needs of major market segments and key customers with structured and simple ranges of quality products. Four flat panel TV models with high quality and basic design were launched as a result. The Group's high-end TVs accounted for 43% of the total sales revenue, which remained stable compared with the quarter of the previous year.

At the same time, the Group streamlined its operations and effectively reduced operating costs. The sales teams were realigned, and certain sales offices were closed. Logistics costs were reduced by increasing direct shipment to customers, while administrative cost was also kept under control at budget levels.

The Group's Thomson brand maintained its market position with a 5% share (Source: GfK December 2005 – January 2006). Leveraging on TTE's competitive strength in CRT TV segment, the Group was able to improve its position in the European CRT TV segment to 10%.

North American Market

Competition in the North American market was keener than ever in the first quarter of 2006. Although some competitors dropped out of the CRT and rear projection TV market segments, price pressure continued to prevail. On the other hand, the fast growing LCD TV market attracted new entrants. Increasing market supply led to intensified price competition of LCD TVs. Similar to the trend observed in the European market, the overall market demand declined by 14% on a volume basis according to the Consumer Electronics Association (a U. S. market research company) as the analogue TV, TV combo and PTV segment declines weighed more heavily than the rapid growth of LCD, PDP and digital TV sales.

By focusing on key products that are well received by the market, and by serving key customers that generate bulk purchases, the Group effectively boosted sales of the RCA brand and enhanced its product mix. High-end TVs accounted for 63% of the revenue as compared to 46% in the same period last year.

The Group continued to emphasize the message of "Affordable Digital Television for Every Room and Budget" in its marketing activities and to focus on growing sales with mass merchants, national chains and rental customers in line with its channel strategy. Eight new models were introduced during the quarter under review.

Emerging Markets and Strategic OEM

The Emerging Markets and the Strategic OEM business recorded satisfactory performance in the first quarter of 2006. TV unit sales in these two markets rose by 52% year-on-year to 1.82 million sets in the first quarter of 2006. They accounted for 16% of the total TV sales revenue. Both markets continued to be profitable and contributed an operating profit of HK$59 million.

In Emerging Markets, our performance in Latin American markets was encouraging. Gross profit margin, though negatively affected by inventory clearance, improved slightly year-on-year as a result of better-than-expected sales performance.

The Strategic OEM business recorded sustainable growth for the period. The Group continued to benefit from the global outsourcing trend and successfully established working relationship with new customers. New European accounts were signed up, and strong sales growth was seen in the Russian market.

PC Business

While the performance of the PC business has been relatively stable, its weight in the Group's overall business performance has been declining due to the globalization of the TV business.

During the first quarter of 2006, the Group sold a total of 176,000 sets of PC (2005: 151,000 sets) and generated a revenue of HK$578 million which is 32% higher than the same period last year. This accounted for 7% of the Group's total turnover.

The Group took pride to announce the launch of the world's first-ever notebook PC series named "Centrino Duo" with core duo CPUs during the first quarter of 2006. It offers enhanced media/graphics processing features, as well as upgraded wireless connectivity. An intensive sales and marketing campaign was launched to support the new product launch and notebook PC sales in particular. Unit shipment of notebook PC during the period under review accounted for 14% of total unit shipment (only 4% for the first quarter of 2005).

Outlook
Looking into the second quarter of 2006, the Group does not see any lessening of competition. Price competition will remain, and industry players are confronted with their ability to survive under a low margin, fast changing environment. As such, the Group anticipates that the second quarter will continue to be a difficult period for the Group.

The greatest challenge for the Group rests on its capability to turnaround the North American and European divisions. After having a year's reform and hard work on the North American market, the Group has accumulated some successful experience with notable results. It is now replicating the restructuring initiatives to speed up the turnaround of the European market. As for TTE's strategies going forward, the Group will try to leverage on its global operation and build a stronger position in the flat panel TV segment.

FINANCIAL REVIEW

Significant Investments and Acquisitions
There was no significant investment and acquisition for the three months ended 31 March 2006.

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

The cash and bank balances as at the period end amounted to HK$1,551 million, of which 3% was maintained in Hong Kong dollars, 19% in US Dollars, 47% in Renminbi, 11% in Euro and 20% 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 2005 and there was no asset held under finance lease at the period end.

At the period end, the Group's gearing ratio was 62% which is calculated based on the Group's net borrowing of HK$2,371 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the Company of HK$3,846 million.

Pledge of Assets
At 31 March 2006, certain of the Group's buildings with a net book value of approximately HK$89 million and certain time deposits of approximately HK$50 million were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities
At 31 March 2006, there was no significant change in capital commitments and contingent liabilities when compared with the position at 31 December 2005.

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 approximately 28,000 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes.

PURCHASES, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company has not, for the three months ended 31 March 2006, complied with the code provisions of the Code of Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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.

On behalf of the Board
Li Dong Sheng
Chairman

Hong Kong, 27 April 2006

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

"Please also refer to the published version of this announcement in South China Morning Post."