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 NINE MONTHS ENDED 30 SEPTEMBER 2005

FINANCIAL HIGHLIGHTS

Unaudited results for the NINE months ended 30 September

	2005 *(HK$M)*	2004 *(HK$M)*	Change
Turnover	**24,040**	14,828	62%
EBITDA	**126**	572	(78%)
Net profit/(loss) before tax	**(318)**	394	N/A
Net profit/(loss) attributable to equity holders of the Company	**(275)**	330	N/A
Basic earnings/(loss) per share (HK cents)	**(9.23)**	12.09	N/A

OPERATIONAL HIGHLIGHTS

- Maintained its dominant position in the PRC market with increased share of 21%
- Performance in North American market in line with management's expectation
- European operations negatively affected by keen competition and seasonal factor
- Emerging markets and Strategic OEM continued to grow significantly

The Board of Directors ("the Board") of TCL Multimedia Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2005 with comparative figures for the previous year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**9 months ended 30 Sept 2005 (unaudited)** ***HK$'000***	**9 months ended 30 Sept 2004 (unaudited) (Restated)** *HK$'000*	**3 months ended 30 Sept 2005 (unaudited)** ***HK$'000***	**3 months ended 30 Sept 2004 (unaudited) (Restated)** *HK$'000*
REVENUE					
Sale of goods	2	**24,040,138**	14,827,697	**8,425,040**	6,983,083
Cost of sales		**(20,265,391)**	(12,293,556)	**(7,239,239)**	(5,859,268)
Gross profit		**3,774,747**	2,534,141	**1,185,801**	1,123,815
Other income and gains		**144,632**	100,449	**53,778**	30,264
Selling and distribution costs		**(2,807,498)**	(1,590,162)	**(922,477)**	(807,857)
Administrative expenses		**(827,415)**	(532,527)	**(272,139)**	(249,583)
Research and development costs		**(387,478)**	(125,375)	**(159,267)**	(89,834)
Other expenses		**(74,351)**	(37,253)	**(38,425)**	(11,618)
Loss on disposal of a subsidiary		**—**	(2,075)	**—**	—
Change in fair value of financial assets		**(34,195)**	16	**(22,859)**	16

	Notes				
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	2	**(211,558)**	347,214	**(175,588)**	(4,797)
Finance costs		**(108,730)**	(18,705)	**(41,648)**	(10,769)
Share of profits and losses of jointly-controlled entities		**2,021**	123,258	**398**	(6,698)
Amortisation of goodwill on acquisition of a jointly-controlled entity		**—**	(57,321)	**—**	(18,105)
PROFIT/(LOSS) BEFORE TAX		**(318,267)**	394,446	**(216,838)**	(40,369)
Tax	3	**(77,896)**	(94,310)	**(21,634)**	(37,449)
PROFIT/(LOSS) FOR THE PERIOD		**(396,163)**	300,136	**(238,472)**	(77,818)
ATTRIBUTABLE TO:					
Equity holders of the Company		**(274,717)**	329,952	**(179,090)**	(51,116)
Minority interests		**(121,446)**	(29,816)	**(59,382)**	(26,702)
		(396,163)	300,136	**(238,472)**	(77,818)
INTERIM DIVIDEND	4	**—**	110,316		
EARNINGS/(LOSS) PER SHARE	5				
Basic		**(9.23 cents)**	12.09 cents		
Diluted		**(9.61 cents)**	9.73 cents		

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) (Restated) *HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**2,741,849**	2,376,800
Prepaid land lease payments	**96,694**	71,604
Intangibles	**108,879**	26,506
Goodwill:		
Goodwill	**206,639**	206,639
Negative goodwill	**—**	(559,532)
Interests in jointly-controlled entities	**150,680**	146,375
Available-for-sale investments	**19,081**	42,301
Long term receivables	**260,735**	283,814
Prepaid royalty	**550,327**	620,368
Deferred tax assets	**19,903**	18,583
Total non-current assets	**4,154,787**	3,233,458
CURRENT ASSETS		
Inventories	**4,354,878**	4,565,500
Trade and bills receivables	**5,751,300**	5,812,543
Other receivables	**1,557,891**	1,318,452
Tax recoverable	**21,244**	11,266
Financial assets at fair value through profit or loss	**45,269**	168,460
Cash and bank balances	**1,203,628**	1,833,272
Total current assets	**12,934,210**	13,709,493

CURRENT LIABILITIES		
Trade and bills payables	**7,135,302**	6,649,213
Tax payable	**112,035**	110,838
Other payables and accruals	**1,976,988**	1,656,962
Provisions	**134,114**	239,877
Bank borrowings	**741,438**	570,119
Due to a minority shareholder	**—**	430,748
Due to a shareholder	**756,149**	—
Due to the ultimate holding company	**304**	246,965
Convertible notes	**256,000**	256,000
Total current liabilities	**11,112,330**	10,160,722
NET CURRENT ASSETS	**1,821,880**	3,548,771
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,976,667**	6,782,229
NON-CURRENT LIABILITIES		
Bank borrowings	**1,486,325**	1,622,134
Due to a minority shareholder	**—**	603,048
Deferred tax liabilities	**25,690**	33,989
Pensions and other post-employment benefits	**132,910**	130,050
Total non-current liabilities	**1,644,925**	2,389,221
	4,331,742	4,393,008
CAPITAL AND RESERVES		
Equity attributable to equity holders of the Company:		
Issued capital	**390,295**	275,796
Reserves	**3,850,523**	2,584,784
Proposed final dividend	**—**	110,346
	4,240,818	2,970,926
Minority interests	**90,924**	1,422,082
	4,331,742	4,393,008

Notes:

1. Principal Accounting Policies

The Directors are responsible for the preparation of the Group's unaudited quarterly financial statements. These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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 Hong Kong Institute of Certified Public Accountants 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.

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.

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 amortisation of goodwill and trademarks from 1 January 2005.

— Accumulated amortisation 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 becomes fully entitled to the awards.

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 nine months ended 30 September 2005				
Change in fair value of and exchange loss on the Call Option	—	—	(24,463)	(24,463)
Decrease in amortisation of trademark with indefinite useful life	—	1,681	—	1,681
Increase in staff costs and related expenses	(18,235)	—	—	(18,235)
Total increase/(decrease) in profit attributable to equity holders of the Company	(18,235)	1,681	(24,463)	(41,017)
(Increase)/decrease in basic loss per share (HK cents)	(0.61)	0.06	(0.82)	(1.37)
For the nine months ended 30 September 2004				
Change in fair value of and exchange gain on the Call Option	—	—	8,497	8,497
Increase in staff costs and related expenses	(3,309)	—	—	(3,309)
Total increase/(decrease) in profit attributable to equity holders of the Company	(3,309)	—	8,497	5,188
Increase/(decrease) in basic earnings per share (HK cents)	(0.12)	—	0.31	0.19

2. Segment Information

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

	Turnover		Profit/(loss) from operating activities	
	2005	2004	**2005**	2004 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Television	**20,442,986**	12,079,835	**(184,561)**	352,565
Computers	**1,559,757**	1,482,315	**49,666**	37,824
Other audio-visual products	**1,684,785**	912,723	**44,156**	15,923
Others	**352,610**	352,824	**(9,929)**	(5,785)
	24,040,138	14,827,697	**(100,668)**	400,527
Interest income			**17,423**	5,089
Negative goodwill recognised			**—**	13,842
Amortisation of goodwill			**—**	(25,599)
Corporate expenses			**(94,118)**	(44,586)
Loss on disposal of a subsidiary			**—**	(2,075)
Change in fair value of financial assets			**(34,195)**	16
			(211,558)	347,214

3. 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:

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Current:		
Hong Kong	**9,999**	29,795
Elsewhere	**78,259**	65,115
Deferred	**(10,362)**	(600)
	77,896	94,310

4. Interim dividend

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

5. Earnings/(Loss) per Share

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

	Unaudited Nine months ended 30 September	
	2005	2004
		(Restated)
	HK$'000	*HK$'000*
Earnings		
Profit/(loss) attributable to ordinary equity holders of the parent entity used in basic earnings/(loss) per share calculation	**(274,717)**	329,952
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**—**	5,602
Adjustment to minority interest upon exercise of the Exchange Option[@]	**(100,372)**	(32,014)
Earnings/(loss) for the purposes of diluted earnings/(loss) per share	**(375,089)**	303,540

	Number of shares Nine months ended 30 September	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation	**2,976,492,754**	2,729,646,318
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the period	**—**	15,994,184
Assumed issued on deemed conversion of all convertible notes outstanding during the period	**—**	108,388,837
Assumed issued on deemed exercise of the Exchange Option[@] outstanding during the period	**926,242,648**	264,218,507
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	**3,902,735,402**	3,118,247,846

[@] Pursuant to an exchange option agreement dated 30 July 2004 entered into between the Company and 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. On 10 August 2005, Thomson exercised its Exchange Option and 1,144,182,095 new shares were issued to Thomson. 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.

BUSINESS REVIEW

TV Business Review

Market overview

The Group experienced a difficult period in the third quarter of 2005. It was typically a low season of the year marked by sluggish market demand, particularly in European and North American markets. Competition was as keen as ever, leading to declining average selling price and narrowed gross margin across regions.

In line with the global industry trend, the Group continued to enhance its product mix by rolling out new high-end models. Strong emphasis was placed on flat panel LCD TV which is now a high-growth product segment in the TV market globally.

The Group maintained its dominant position in the PRC with an increased market share despite the low season effect. Business performance in North America was basically in line with the Group's expectation. Encouraging sales were seen in Emerging Markets as well as the Strategic OEM business. The European market, however, suffered from the seasonal factor during the restructuring and transitional period, thereby posting unsatisfactory performance.

During the period under review, the transfer of the sales and marketing function from Thomson to TTE was mostly completed, and further measures to contain costs were underway. Nevertheless, the benefits from economies of scale could not be obtained and synergies achieved since the formation of TTE could not be reflected in the low season. An operating loss of HK$176 million was recorded in the third quarter of 2005.

	TV Unit Sales Unaudited results for the NINE months ended 30 September		
	2005 ***('000 sets)***	2004 *('000 sets)*	Change
— PRC	**6,424**	6,039	+6%
— Europe & North America*	**4,132**	1,044	+296%
— Emerging Markets & Strategic OEM	**5,643**	3,474	+62%
Total TV	**16,199**	10,557	+53%

	TV Unit Sales Unaudited results for the THREE months ended 30 September		
	2005 ***('000 sets)***	2004 *('000 sets)*	Change
— PRC	**2,279**	2,292	–1%
— Europe & North America*	**1,434**	940	+53%
— Emerging Markets & Strategic OEM	**2,710**	1,359	+99%
Total TV	**6,423**	4,591	+40%

* ex-Thomson TV business started making contribution to the Group's revenue from August 2004.

The PRC Market

The Group's PRC business continued to deliver stable performance in the third quarter. Taking up a 21% share in the market, TCL remained as the best selling TV brand in the PRC (source: Ministry of Information Industry, January to August 2005). In the third quarter of this year, TV unit shipment was 2.3 million, whilst TV sales revenue from the PRC market rose by 3% to HK$2,684 million, accounting for 38% of the Group's total TV revenue.

The Group's PRC TV business witnessed a structural change. As market demand continued to switch from CRT TVs to flat panel display TVs, sales growth was driven by product enhancement rather than volume increase. Though the Group's unit sales for the third quarter was roughly the same as that of the corresponding period last year, it achieved considerable product mix upgrade and enhanced the overall average selling price. High-end TVs accounted for 22% of the Group's total sales in the PRC in the quarter under review. Of the 15 new high-end TV models launched in the quarter under review, LCD TV models were particularly well received. TCL's market share in the LCD TV segment further increased to 12% (source: China Market Monitor, August 2005).

European and North American Market

In these two major markets, a total of 1.4 million sets of TVs were sold and sales revenue amounted to HK$3,089 million in the third quarter. In aggregate, they accounted for 44% of the Group's total TV revenue.

European Market

Performance in the European market during the period under review was below expectation. Impacted by the seasonal factor, the European market was gloomy during the third quarter this year. Internally, the third quarter was a period of transition for the European profit centre after restructuring, causing delay in new product launches. Only four new LCD TV models were launched towards the end of the quarter, and sales of which were yet to be reflected on the upcoming fourth quarter.

On the other hand, the unsatisfactory performance of projection TVs exerted negative impact on the Group's overall average selling price and profit margins.

Despite these, the Thomson branded TV maintained its position amongst the top 5 TV brands with a 6% share in the European market (Source: GFK report, June to July 2005).

North American Market

The Group's sales and operational performance in the North American market were in line with the management's expectation. The Group took pride to witness the rising market acceptance of its products in the North American market. The Group's market share further increased to 9% and ranked No. 3 amongst all TV manufacturers (Source: Synovate, July to August 2005).

Continued improvements in profitability as a result of effective cost controls and product mix enhancement were also seen. The Group rolled out 22 new models in the third quarter of 2005, including TTE's first SDTV, 4 LCD models, 8 DLP models and 8 CRT-based RPTV models with integrated DTV tuners. The response exceeded expectations which is particularly seen in the newly launched LCD TVs.

Emerging Markets & Strategic OEM business

The Emerging Markets and the Strategic OEM business in aggregate achieved sales of 2.7 million TV sets in the third quarter. Sales revenue from these two profit centres amounted to HK$1,225 million and accounted for 18% of the total TV sales.

The Group paved way for expansion by developing new clients and penetrating into new markets. New account development was still in initial stage and thereby sales volumes from new customers were not yet significant. At the same time, the Group also proactively established new branch offices in emerging markets. Nevertheless, the increased expenses from new offices resulted in a decline in operating profit margin.

PC business

TCL PCs was ranked No. 5 in the PRC desktop PC market with a 4% share. For the three months ended 30 September 2005, PC unit sales surged by 22% year-on-year to 186,000 sets. Sales revenue amounted to HK$588 million and accounted for 7% of the Group's total revenue.

Unit sales growth of the Group during the period under review was fuelled by strong sales of home PCs. The sales in commercial sector slowed down relatively as some projects for education institutes were delayed. Seeing increasing popularity of notebook PCs, the Group started to place more resources on this segment in order to capture this new opportunity for further growth.

BUSINESS OUTLOOK

The Group expects a positive outlook for the fourth quarter which will compensate part of the loss recorded in the first nine months of the year.

Traditionally the fourth quarter is the high season for TV industry where market demand is typically strong. The Group will be able to improve its performance and reflect the synergies that have been generated since the establishment of TTE. For the European profit centre, we are confident that the performance in the coming quarter will be greatly improved as a full range of new products is being launched. The prices of LCD TVs and other high-end products have stabilized, and we do not expect drastic product price change in the next quarter.

New management members were appointed to different functional units of TTE to strengthen the management. With the insights and experience from this talented international team, the Group is well positioned to conquer new challenges. Particular attention will be placed on cost management.

The Group has an unwavering commitment towards R&D. With market demand switching from CRT to flat panel display TVs, and with product prices continually on the downward trend, fast new product introduction and supply chain management are crucial to success. Strong emphasis will be placed on these two aspects in the coming quarters.

FINANCIAL REVIEW

For the three months ended 30 September 2005, the Group's consolidated turnover amounted to HK$8,425 million, representing a year-on-year growth of 21%. Gross profit increased by 5.5% to HK$1,186 million. The growth in revenue and gross profit was mainly contributed by sales from the European and North American markets which were formerly operated by Thomson Group.

The Group's gross profit margin recorded a decrease to 14.1% (3Q 2004: 16.1%) for three main reasons. Firstly, the gross margins of the overseas markets were lower than that in the PRC and overseas business weighted more heavily in the third quarter this year than the same period last year. Secondly, the price of LCD TVs decreased rapidly. Thirdly, the gross margin was dragged down by the unsatisfactory performance of projection TVs in the European market.

Amongst the Group's five profit centres, the PRC, Emerging Markets and Strategic OEM business were profitable. However, the profits were not sufficient to cover the loss incurred by the European and North American profit centres.

In addition, the Group's performance in the third quarter was adversely affected by a number of non-operating factors, such as (i) impairment of shares in TCL Communication Technology, (ii) diminution in value of Thomson's call options held by the Group, (iii) the new accounting requirement to charge the granting of staff share options as expenses and (iv) the higher finance cost resulted from higher debt level, which drove up the cost of the Group. The combined effect of these non-operating factors amounted to HK$77 million for the third quarter.

Impacted by the loss brought by European and North American centres, and the above non-operating factors, the Group recorded a net loss of HK$179 million during the period under review.

Significant investments and acquisitions

During the period, 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. The acquisition is expected to be completed by the end of this year. 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 the NA Transfer Agreement and European Master Transfer Agreement for the transfer of the sales and marketing activities in North America and Europe respectively from Thomson to TTE. In connection therewith, among other things, TTE and Thomson are required to execute 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. Closing of all the transactions contemplated under the NA Transfer Agreement and the transactions contemplated under the European Master Transfer Agreement with respect to a number of European countries took place on 1 September 2005. It is expected that closing of the remaining countries in Europe will be completed on or before the end of this year. The agreements 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 announcements dated 12 July 2005 and dated 2 September 2005 and the Company's circular dated 2 August 2005.

(3) On 26 July 2005, the Company acquired from Opta Systems, LLC, a company controlled by TCL Corporation, certain intellectual property rights including trademarks, service marks, patents applications and copyrights at a consideration of US$10 million. 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$1,204 million, of which 2% was maintained in Hong Kong dollars, 23% in US Dollars, 43% in Renminbi, 16% in Euro and 16% 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 48% which is calculated based on the Group's net borrowing of approximately HK$2,037 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$4,241 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 34,000 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. 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. Including those granted previously, options for subscribing a total of 183,342,861 shares remained outstanding at the period end.

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 nine months ended 30 September 2005, complied with the code provisions of the Code of Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("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, Wang Bing, Tang Guliang and Hon Fong Ming, the independent non-executive directors, Albert Thomas da Rosa, Junior, the non-executive director and Lu Zhong Li, an executive director of the Company were appointed as the members of the remuneration committee with Wang Bing being the chairman of the committee.

REVIEW OF ACCOUNTS

The quarterly 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.

On behalf of the Board
LI Dong Sheng
Chairman

Hong Kong, 28 October 2005

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

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