

INTERIM RESULTS

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1. Basis of preparation**

The Directors are responsible for the preparation of the Group's unaudited interim financial statements. These unaudited interim 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 ("Listing Rules").

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include HKASs and Interpretations, that affect the Group and are adopted the first time for the current period's financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited interim condensed consolidated financial statements.

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 2006 is as follows:

	Turnover		Profit/(loss) from operating activities	
	2006	2005	2006	2005
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Continuing operations:				
Television	13,195,079	13,444,365	(494,484)	(31,051)
Other audio-visual products	1,003,082	936,243	38,122	23,038
Others	301,432	263,175	(382)	(13,464)
Discontinued operation:				
Computers	1,206,796	971,315	503	36,541
	15,706,389	15,615,098	(456,241)	15,064
Interest income			10,012	14,184
Corporate expenses			(57,697)	(53,882)
			(503,926)	(24,634)

3. Discontinued operation

On 21 June 2006, the Company and T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a controlling shareholder of the Company, entered into a sale and purchase agreement pursuant to which the Company agrees to sell, and to procure its relevant subsidiaries to sell, and T.C.L. Industries agrees to purchase (i) the entire issued share capital of TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology"), (ii) the entire issued share capital of TCL Education Web Limited and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. Further details of the disposal are set out in the Company's announcement dated 23 June 2006 and circular dated 17 July 2006.

On 7 August 2006, the resolution for approving the disposal was passed at the extraordinary general meeting of the Company. It is expected that the completion of the disposal will take place on 8 September 2006.

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4. Impairment of assets and write-down of inventories to net realizable value

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Impairment of:		
Property, plant and equipment	225,000	–
Long term receivables		
– Angers factory assets receivable	79,000	–
– Trademark fee reinvestment	43,775	–
Other receivables		
– Trademark fee reinvestment (current portion)	18,359	–
	366,134	–
Write-down of inventories to net realizable value	499,000	–
Total	865,134	–

In view of the deteriorating financial performance in Europe and the uncertainty of the effect of reorganization measures taken by the European operations, the Group performed a critical assessment of its investment in Europe and estimated the recoverable amounts of certain European assets.

Under the circumstances that the existing business model in Europe may be changed significantly, the estimated recoverable amount of (a) part of the Angers factory assets to be transferred from Thomson S.A. ("Thomson") within five years from 30 July 2004 (under the Agreement relating to Thomson Television Angers dated 30 July 2004) and (b) the trademark fee reinvestment receivable by the Group from Thomson during the period from July 2006 to July 2009 for general brand awareness advertising (pursuant to the Thomson Trademark License Agreement dated 30 July 2004), will be lower than their respective carrying amounts. Moreover, the value in use of certain property, plant and equipment in Europe for the next few years is expected to be lower than their carrying amounts due to lower utilization rate of production capacity based on latest forecast. Having taken the current changes in market price into consideration, certain inventories of the European business are written down to their net realizable values.

5. Finance costs

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	97,767	40,485
Other loan wholly repayable within five years	5,512	–
Convertible notes	–	3,840
Loan from a shareholder/minority shareholder	13,417	10,109
Loan from the ultimate holding company	10,583	12,648
	127,279	67,082

6. Depreciation and amortization

During the period, depreciation of HK\$208,019,000 (2005: HK\$225,263,000) was charged to the income statement in respect of the Group's property, plant and equipment; and amortization of HK\$3,587,000 (2005: nil) and HK\$2,739,000 (2005: HK\$2,954,000) were charged to the income statement in respect of the Group's other intangible assets and prepaid land lease payments, respectively.

7. 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:

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current:		
Hong Kong	5,553	4,475
Elsewhere	64,636	60,640
Deferred	(2,641)	(8,853)
	67,548	56,262

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8. Interim dividend

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. Loss per share attributable to ordinary equity holders of the parent

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

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in basic loss per share calculation	(1,599,589)	(95,627)
Effect of dilutive potential ordinary shares:		
Adjustment to minority interest upon exercise of the Exchange Option [@]	-	(41,178)
Loss for the purposes of diluted loss per share	(1,599,589)	(136,805)
	Number of shares	
	Six months ended 30 June	
	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	2,758,443,352
Weighted average number of ordinary shares:		
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 loss per share calculation	3,902,951,727	3,902,625,447

[@] 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 a subsidiary of the Company TTE Corporation ("TTE"), to exchange all of Thomson's interest in TTE for new shares issued by the Company. On 10 August 2005, Thomson exercised its Exchange Option and 1,144,182,095 new shares were issued to Thomson.

A diluted loss per share amount for the period ended 30 June 2006 has not been disclosed, as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

10. Trade and bills receivables

The majority of the Group's sales in PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were also made on open-account basis with credit terms of no more than 180 days. Certain customers are allowed to settle the contract sum by instalments semi-annually. During the period, the Group also entered into certain receivables purchase agreements with its banks and a factoring company. Pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks and the factoring company.

In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	30 June 2006 (unaudited) HK\$'000	31 December 2005 (audited) HK\$'000
Current to 90 days	4,214,097	5,593,526
91 days to 180 days	223,888	124,902
181 days to 365 days	284,663	247,726
Over 365 days	179,550	146,950
Total	4,902,198	6,113,104
Less: Portion classified as non-current assets	(51,678)	(76,131)
Current portion	4,850,520	6,036,973

At 30 June 2006, the Group's trade receivables of approximately HK\$1,190,346,000 (31 December 2005 : HK\$1,110,972,000) (the "Factored Receivables") were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognize the Factored Receivables in the balance sheet because, in the opinion of the directors, the Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money, as at the balance sheet date.

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10. Trade and bills receivables (continued)

At 30 June 2006, the Group did not have any discounted trade receivables with recourse (the "Discounted Bills") (31 December 2005: approximately HK\$20,082,000).

Accordingly, the advances from the relevant banks and the factoring company of approximately HK\$851,072,000 (31 December 2005 : HK\$828,433,000) and HK\$231,887,000 (31 December 2005 : HK\$302,621,000), respectively, received by the Group as consideration for the Factored Receivables at the balance sheet date were recognized as liabilities and included in "Interest-bearing bank and other borrowings" (note 12).

11. Trade and bills payables

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

	30 June 2006 (unaudited) HK\$'000	31 December 2005 (audited) HK\$'000
Current to 90 days	5,092,197	6,547,730
91 days to 180 days	194,884	77,039
181 days to 365 days	61,506	197,155
Over 365 days	173,310	45,218
	5,521,897	6,867,142

12. Interest-bearing bank and other borrowings

	30 June 2006 (unaudited) HK\$'000	31 December 2005 (audited) HK\$'000
Bank overdrafts – secured	77,494	83,472
Bank overdrafts – unsecured	–	57,995
Bank loans – secured	67,787	19,382
Bank loans – unsecured, on demand	1,529,806	1,538,300
Bank loans – unsecured	526,301	328,625
Advances from banks as consideration for Factored Receivables and Discounted Bills	851,072	828,433
Advances from factoring company as Consideration for Factored Receivables	231,887	302,621
Trust receipt loans – secured	8,636	48,706
Trust receipt loans – unsecured	169,172	273,511
	3,462,155	3,481,045

Notes:

- (a) The Group's overdraft facilities amounting to HK\$167,551,000 (31 December 2005 : HK\$175,443,000), of which HK\$77,494,000 (31 December 2005 : HK\$141,467,000) had been utilized as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits, inventories, and property, plant and equipment amounting to Nil (31 December 2005 : HK\$59,911,000), HK\$24,176,000 (31 December 2005 : Nil) and HK\$84,616,000 (31 December 2005 : HK\$90,090,000), respectively.
- (b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits and inventories amounting to HK\$30,398,000 (31 December 2005 : HK\$30,254,000) and HK\$24,399,000 (31 December 2005 : Nil), respectively.
- (c) As at 30 June 2006, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

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12. Interest-bearing bank and other borrowings (continued)

Notes: (continued)

- (d) Except for a secured bank loan of HK\$19,597,000 and unsecured bank loans of HK\$526,302,000 (31 December 2005: secured bank loans of HK\$19,382,000, overdrafts of HK\$83,472,000 and unsecured bank loans of HK\$328,625,000), all other borrowings of the Group bear interest at floating rates.

In addition, TCL Corporation, the ultimate holding company, has guaranteed certain of the Group's bank loans up to HK\$380,105,000 (31 December 2005 : HK\$91,267,000) as at the balance sheet date.

Breach of loan covenants

As at 30 June 2006, in respect of certain bank loans with an aggregate carrying amount of HK\$1,529,806,000, the Group breached certain financial covenants of the banks loans. Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the loans have been classified as current liabilities in these financial statements at 30 June 2006.

13. Due to a shareholder/minority shareholder

The loan is due to Thomson, bears interest at 6.1% per annum (31 December 2005: 4.26% per annum), being the cost of fund of Thomson, and was secured by the Group's trade receivables with a carrying value of HK\$492,346,000 as at 30 June 2006 (31 December 2005: HK\$536,364,000). Pursuant to the Receivables Purchase and Sales Agreement entered into between TTE and Thomson dated 30 July 2004, 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. The Group is in the process of negotiating with Thomson with a view to rescheduling this indebtedness.

14. Due to the ultimate holding company

The amount is unsecured and repayable within one year, and bears interest at 3.24% per annum (31 December 2005: 2.8%).

15. Share capital

	30 June 2006 (unaudited) HK\$'000	31 December 2005 (audited) HK\$'000
Authorized:		
8,000,000,000 (31 December 2005 : 5,000,000,000) shares of HK\$0.10 each	800,000	500,000
Issued and fully paid:		
3,902,951,727 (31 December 2005 : 3,902,951,727) shares of HK\$0.10 each	390,295	390,295

Pursuant to the resolution passed by the Company's shareholders on 27 February 2006, the authorized share capital of the Company was increased from HK\$500,000,000 to HK\$800,000,000 by the creation of 3,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

Details of the movements in respect of the share option during the period are set out under the "share option" section on page 30.

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16. Related party transactions

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

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Jointly-controlled entities:		
Sale of raw materials	449,808	546,760
Sale of finished goods	45,317	47,854
Purchase of finished goods	455,689	492,117
Ultimate holding company :		
Interest expense	10,583	12,648
Companies controlled by ultimate holding company :		
Sales of raw materials	–	228
Sales of finished goods	10,358	–
Purchases of raw materials	273,417	179,871
Purchase of finished goods	39,571	31,799
Subcontracting fee expense	4,647	6,411
Rental income	6,403	–
Thomson and its affiliates:		
Purchases of raw materials	122,552	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	119,117	112,401
Interest expense	13,417	10,109
Patent royalty expense	7,387	8,618
Reimbursement of brand advertising costs	36,652	8,198
Strategic sourcing fee expense	–	14,560
Trademark royalty fee	17,388	–
After-sales and related services fee expense	22,323	–
Laboratory service fee expense	2,141	–
Reimbursement of reorganization costs	48,100	–
Subcontracting fee expense	29,225	–
Styling service fee income	2,862	–
Logistics management service fee income	1,924	–

16. Related party transactions (continued)

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	30 June 2006 (unaudited) <i>HK\$'000</i>	31 December 2005 (audited) <i>HK\$'000</i>	30 June 2006 (unaudited) <i>HK\$'000</i>	31 December 2005 (audited) <i>HK\$'000</i>
Jointly-controlled entities	32,894	29,645	88,810	119,564
The ultimate holding company and its affiliates	109,285	64,711	961,587	943,874
Thomson and its affiliates	15,480	41,765	704,049	778,523