

## Interim Results

These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the three months and six months ended 30 June 2006

	Notes	Six months ended 30 June 2006 (Unaudited) HK\$'000	Six months ended 30 June 2005 (Unaudited) HK\$'000	Three months ended 30 June 2006 (Unaudited) HK\$'000	Three months ended 30 June 2005 (Unaudited) HK\$'000
REVENUE	2	<b>2,504,762</b>	2,971,098	<b>1,241,249</b>	1,272,739
Cost of sales		<b>(2,215,453)</b>	(2,908,198)	<b>(1,101,007)</b>	(1,292,132)
Gross profit/(loss)		<b>289,309</b>	62,900	<b>140,242</b>	(19,393)
Other income and gains	3	<b>87,244</b>	47,286	<b>84,153</b>	14,176
Research and development costs		<b>(82,265)</b>	(209,556)	<b>(56,995)</b>	(91,656)
Selling and distribution costs		<b>(176,915)</b>	(524,504)	<b>(95,253)</b>	(253,785)
Administrative expenses		<b>(149,772)</b>	(484,664)	<b>(37,621)</b>	(215,400)
Other operating expenses		<b>(8,943)</b>	(421)	<b>(8,916)</b>	(361)
Finance costs	4	<b>(9,784)</b>	(9,810)	<b>(5,235)</b>	(4,947)
Share of losses of an associate		<b>(10,264)</b>	-	<b>(10,264)</b>	-
PROFIT/(LOSS) BEFORE TAX	5	<b>(61,390)</b>	(1,118,769)	<b>10,111</b>	(571,366)
Tax	6	<b>(9,259)</b>	(4,000)	<b>(3,843)</b>	(5,131)
PROFIT/(LOSS) FOR THE PERIOD		<b>(70,649)</b>	(1,122,769)	<b>6,268</b>	(576,497)
Attributable to:					
Equity holders of the parent		<b>(70,649)</b>	(853,365)	<b>6,268</b>	(467,651)
Minority interests		-	(269,404)	-	(108,846)
		<b>(70,649)</b>	(1,122,769)	<b>6,268</b>	(576,497)
DIVIDENDS	7				
Interim		-	-	-	-
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS (HK Cents)	8				
Basic		<b>(1.4)</b>	(30.2)	<b>0.1</b>	(16.5)
Diluted		<b>(1.4)</b>	(33.4)	<b>0.1</b>	(18.3)

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**CONDENSED CONSOLIDATED BALANCE SHEET**

30 June 2006

	Notes	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>321,864</b>	360,149
Prepaid land lease payments		<b>11,232</b>	11,400
Intangible assets		<b>10,939</b>	13,541
Deferred tax assets		<b>8,885</b>	8,815
Interest in an associate		<b>129,336</b>	–
Other non-current assets		<b>3,706</b>	3,459
<b>Total non-current assets</b>		<b>485,962</b>	397,364
<b>CURRENT ASSETS</b>			
Inventories		<b>632,054</b>	709,279
Trade receivables	9	<b>981,874</b>	1,127,063
Factored trade receivables		<b>104,976</b>	106,981
Notes receivable		<b>113,914</b>	371,093
Prepayments, deposits and other receivables		<b>538,255</b>	511,156
Due from related companies	15b	<b>132,777</b>	347,750
Tax recoverable		<b>51,195</b>	53,010
Pledged bank deposits		<b>24,096</b>	54,317
Cash and cash equivalents		<b>273,621</b>	405,755
<b>Total current assets</b>		<b>2,852,762</b>	3,686,404
<b>CURRENT LIABILITIES</b>			
Interest bearing bank borrowings		<b>19,428</b>	157,834
Trade and notes payables	10	<b>901,171</b>	1,740,610
Bank advance on discounted notes receivable and factored trade receivables		<b>153,845</b>	375,083
Other payables and accruals		<b>871,625</b>	922,532
Provision for warranties		<b>117,447</b>	108,294
Due to related companies	15b	<b>537,092</b>	571,386
<b>Total current liabilities</b>		<b>2,600,608</b>	3,875,739
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>252,154</b>	(189,335)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>738,116</b>	208,029

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**CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

30 June 2006

	<i>Notes</i>	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Retirement indemnities		<b>974</b>	908
Long service medals		<b>493</b>	506
Convertible notes		<b>165,670</b>	165,670
<b>Total non-current liabilities</b>		<b>167,137</b>	167,084
<b>Net assets</b>		<b>570,979</b>	40,945
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	11	<b>593,775</b>	296,888
Reserves		<b>(22,796)</b>	(255,943)
<b>TOTAL EQUITY</b>		<b>570,979</b>	40,945

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2006

	Attributable to equity holders of the parent							Total	Minority interests	Total equity
	Issued share capital	Share premium account	Share option reserve	Contributed surplus	Statutory reserves	Exchange fluctuation reserve	Retained profits/ losses (accumulated)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	282,750	1,093,475	-	232,555	119,951	2,457	(208,220)	1,522,968	341,956	1,864,924
Derecognition of negative goodwill in accordance with the provisions of HKFRS3	-	-	-	-	-	-	38,638	38,638	-	38,638
Adjusted balance at 1 January 2005	282,750	1,093,475	-	232,555	119,951	2,457	(169,582)	1,561,606	341,956	1,903,562
Equity-settled share option arrangement	-	-	909	-	-	-	-	909	-	909
Exchange realignment and total income and losses for the period recognised directly in equity	-	-	-	-	-	1,037	-	1,037	848	1,885
Net loss for the period	-	-	-	-	-	-	(853,365)	(853,365)	(269,404)	(1,122,769)
At 30 June 2005	282,750	1,093,475*	909*	232,555*	119,951*	3,494*	(1,022,947)*	710,187	73,400	783,587

## Interim Results

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

For the six months ended 30 June 2006

	Attributable to equity holders of the parent							Retained profits/ losses	Total equity
	Issued share capital	Share premium account	Share option reserve	Equity component of convertible notes	Contributed surplus	Statutory reserves	Exchange fluctuation reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	296,888	1,140,835	7,737	19,430	232,555	119,951	1,335	(1,777,786)	40,945
Issue of shares	296,887	296,888	-	-	-	-	-	-	593,775
Share issue expenses	-	(6,988)	-	-	-	-	-	-	(6,988)
Equity-settled share option arrangement	-	-	10,300	-	-	-	-	-	10,300
Exchange realignment and total income and losses for the period recognised directly in equity	-	-	-	-	-	-	3,596	-	3,596
Net loss for the period	-	-	-	-	-	-	-	(70,649)	(70,649)
At 30 June 2006	593,775	1,430,735*	18,037*	19,430*	232,555*	119,951*	4,931*	(1,848,435)*	570,979

\* These reserve accounts comprise the consolidated reserves of approximately HK\$(22,796,000) (30 June 2005: HK\$427,437,000) in the consolidated balance sheet.

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**CONDENSED CONSOLIDATED CASHFLOW STATEMENT***For the six months ended 30 June 2006*

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash outflow from operating activities	<b>(493,949)</b>	(875,773)
Net cash outflow from investing activities	<b>(84,372)</b>	(7,444)
Net cash inflow/(outflow) from financing activities	<b>448,381</b>	(175,300)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(129,940)</b>	(1,058,517)
Cash and cash equivalents at beginning of period	<b>405,755</b>	2,005,683
Effect of foreign exchange rate changes, net	<b>(2,194)</b>	(28,982)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>273,621</b>	918,184
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:</b>		
Cash and bank balances	<b>273,621</b>	918,184

## Interim Results

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS***For the six months ended 30 June 2006***1. ACCOUNTING POLICIES**

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKFRS 1 Amendment	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates- Net Investment in a Foreign Operation

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

HKAS 39 Amendment, HKFRS 1 Amendment, HK(IFRIC)-Int 4 and HKAS 21 Amendment does not have any significant impact on the Group’s financial statements in the period of initial application.

**2. SEGMENT INFORMATION**

The Group is principally engaged in the manufacture and sale of mobile phones and related components. All of the Group’s products are of a similar nature and subject to similar risks and returns. Accordingly, the Group’s operating activities are attributable to a single business segment.

The Group’s revenue are principally attributable to various geographical regions. Each of the Group’s geographical segments represents the location of the business division’s production or service facilities, which are subject to risks and returns that are different from those of the other geographical segments.

## Interim Results

### 2. SEGMENT INFORMATION (continued)

The following table presents revenue for the Group's geographical segments.

France		The PRC		Mexico		Consolidated	
Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
2006	2005	2006	2005	2006	2005	2006	2005
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Segment revenue:

Sales to external customers	<b>846,206</b>	1,211,380	<b>856,753</b>	1,343,440	<b>801,803</b>	416,278	<b>2,504,762</b>	2,971,098
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### 3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and related accessories sold and services rendered during the period, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

An analysis of turnover, other income and gains is as follow:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>Revenue</b>		
Sale of mobile phones and related components	<b>2,504,762</b>	2,971,098
<b>Other income and gains</b>		
Interest income	<b>9,161</b>	12,633
Subsidy income	<b>141</b>	19,291
Value-added services income	<b>425</b>	12,815
Deemed gain on dilution of interest in an associate	<b>32,435</b>	–
Exchange gain	<b>42,664</b>	–
Others	<b>2,418</b>	2,547
	<b>87,244</b>	47,286

The deemed gain on dilution of interest in an associate for the six months ended 30 June 2006 represented the gain on the dilution of the Company's shareholding interest in JRD Communication Inc. ("JRDC") from 46.25% to 38.54%, and release of positive goodwill of approximately HK\$733,000 as a result of the receipt by JRDC of US\$16 million for the new share issue in June 2006.



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**4. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and other loans		
wholly repayable within five years	<b>4,526</b>	8,458
Interest on convertible notes	<b>2,754</b>	–
Interest on discounted notes and factored trade receivables	<b>2,504</b>	1,352
	<b>9,784</b>	9,810

**5. LOSS BEFORE TAX**

Loss before tax was determined after charging:

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<b>41,008</b>	52,584
Prepaid land lease recognised	<b>168</b>	–
Amortisation of intangible assets	<b>1,875</b>	2,017
Provision for inventory obsolescence	<b>35,645</b>	29,995
Provision for doubtful debts	<b>23,232</b>	4
Loss on disposal of items of property, plant and equipment	<b>274</b>	75

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## 6. TAX

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Group:		
Current period provision		
Hong Kong	<b>705</b>	38
Mainland China	-	6,145
Mexico	<b>8,464</b>	(2,311)
Deferred	<b>90</b>	128
Total tax charge for the period	<b>9,259</b>	4,000

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.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, had been awarded a high and new technology enterprise accreditation which had expired on 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and has been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence was subject to a national income tax rate of 10% from 2005 to 2007.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. Mobile Hohhot also enjoys preferential tax treatment granted to foreign investment enterprises located in the western region of China, including 50% reduction in national corporate income tax until 2010. As Mobile Hohhot commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate from 2004 to 2006 is 7.5%. If Mobile Hohhot receives its advanced technology enterprise accreditation by the end of 2006 and assuming the relevant PRC tax law will remain effective, Mobile Hohhot will enjoy a PRC corporate income tax rate of 10% for three years starting 2007. Otherwise, Mobile Hohhot will be subject to the PRC corporate income tax rate of 15% from 2007 to 2010 and 30% thereafter.

No profits tax has been provided in the PRC as no taxable income arose during the period.

During the period, T&A Mobile Phones SA de CV Limited paid royalties to T&A Mobile Phones SAS for general relations and contract service charge. According to the applicable Mexican withholding tax regulation, the payments characterised as royalties are subject to a 10% tax on payments defined as royalties under the applicable Mexico-France tax treaty.

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**7. DIVIDEND**

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

**8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	<b>(70,649)</b>	(853,365)
Loss attributable to minority interest	-	(269,404)
Loss for the purposes of diluted earnings/(loss) per share	<b>(70,649)</b>	(1,122,769)
	<b>Number of shares</b>	
	<b>2006</b>	2005
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	<b>5,072,883,783</b>	2,827,500,000
Effect of diluted weighted average number of ordinary shares:		
Assumed issuance on deemed exercise of option by the minority shareholder of the joint venture formed between the Company and Alcatel (the "Joint Venture") by converting its interest in the Joint Venture into the shares of the Company	-	528,934,000
Assumed issuance upon the exercise of share options	<b>24,093,438</b>	1,761,000
	<b>5,096,977,221</b>	3,358,195,000

The calculation of the diluted earnings/(loss) per share for the six months ended 30 June 2006 has also taken into account the convertible notes and share options outstanding during the period. As the Company incurred loss during the period, any conversion of convertible notes is anti-dilutive. Since the exercise price of certain share option during the period is lower than the fair market value of the ordinary share, the share option outstanding during the period has a dilutive effect to the Company.

## Interim Results

### 9. TRADE RECEIVABLES

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date is as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005  HK\$'000
Within 1 month	<b>504,600</b>	939,808
1 to 2 months	<b>142,398</b>	66,109
2 to 3 months	<b>128,586</b>	44,197
Over 3 months	<b>273,959</b>	121,006
	<b>1,049,543</b>	1,171,120
Impairment loss of trade receivables	<b>(67,669)</b>	(44,057)
	<b>981,874</b>	1,127,063

Included in the total provision for doubtful debts, an amount of approximately HK\$54,678,000 (2005: HK\$34,569,000) was made for a customer operating in the PRC.

### 10. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade and notes payables as at the balance sheet date, based on invoice date, is analysed as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005  HK\$'000
Within 6 months	<b>844,816</b>	1,690,543
7 to 12 months	<b>45,483</b>	42,248
More than 1 year	<b>10,872</b>	7,819
	<b>901,171</b>	1,740,610

Included in trade and notes payables are notes payables of HK\$20,326,819 (2005: HK\$367,030,000), which are secured by the pledge of deposits of approximately HK\$5,923,000 (2005: Nil).

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## 11. SHARE CAPITAL

	<b>No of share</b>	<b>Amount</b> <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.1 each at 1 January 2005 and 31 December 2005	5,000,000,000	500,000
Increase during the period	3,000,000,000	300,000
Ordinary share of HK\$0.1 each at 30 June 2006	8,000,000,000	800,000
Issued and fully paid or credited as fully paid:		
Ordinary shares of HK\$0.1 each at 1 January 2005	2,827,500,000	282,750
Shares allotted and issued pursuant to the Framework Agreement	141,375,000	14,138
At 31 December 2005 and at 1 January 2006	2,968,875,000	296,888
Shares allotted and issued pursuant to the Completion of Open Offer	2,968,875,000	296,887
At 30 June 2006	5,937,750,000	593,775

Pursuant to a resolution passed at an extra-ordinary general meeting held on 6 February 2006:

- the authorised share capital of the Company was increased from HK\$500,000,000 to HK\$800,000,000 by the creation of an additional 3,000,000,000 unissued shares of HK\$0.1 each.
- the Company was approved to issue 2,968,875,000 new shares (“Offer Share”) at a price of HK\$ 0.2 per share by way of Open Offer, on the basis of one offer share for every one share of the Company held on them. The Open Offer was completed on 27 February 2006 with a net proceeds of approximately HK\$587,800,000.

Shares issued during the period rank pari passu with the then existing shares in all aspects.

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### 11. SHARE CAPITAL (continued)

As a result of the completion of the Open Offer, the conversion price of the Convertible Notes had been adjusted from HK\$0.58175 per share to HK\$0.528324 per share in accordance with the relevant terms of Convertible Notes and accordingly the Convertible Notes will now entitle the holder thereof to convert them into up to 350,353,192 shares (instead of 318,177,911 shares as previously envisaged). Further, the exercise price and the number of the share options ("Share Options") granted under the share option scheme adopted by the Company on 13 September 2004 ("Share Option Scheme") and outstanding as at 27 February 2006 has also been adjusted in accordance with the terms of the Share Option Scheme and the relevant requirements of the Listing Rules as follows:

Grant Date	Before the Open Offer		After the Open Offer	
	Exercise per share	No. of outstanding Share Options	Adjusted exercise price per share	Adjusted no. of outstanding Share Options
31 May 2005	HK\$0.415	120,570,000	HK\$0.3804	131,531,019
16 January 2006	HK\$0.230	162,180,000	HK\$0.2108	176,923,784
Total:		282,750,000		308,454,803

For further details of the adjustments, please refer to the Company's announcement dated 28 February 2006.

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### 12. SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include employees (including executive and non-executive directors), advisers, consultants, agents, contractors, clients, suppliers, and any other person(s) whom the board of directors of the Company in its sole discretion considers has contributed or may contribute to the Group. The Share Option Scheme became effective on 27 September 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme (as refreshed by shareholders' approval dated 6 February 2006) is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at 6 February 2006 (i.e. up to 296,887,500 shares). The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At the balance sheet date, the Company had 474,441,136 share options outstanding under the Share Option Scheme. Further details of the Share Option Scheme are set out in the Directors' Report.

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### 13. CONTINGENT LIABILITIES

One of the Group's subsidiaries, T&A Mobile Phones Suzhou Limited ("T&A Suzhou") was involved in a patent infringement litigation brought by Hubin, Huxuanhua and Dalian Hanpu Applied Technology Co., Ltd. (the "plaintiff") in March 2001. In May 2002, the PRC trial court rendered civil judgement in favour of T&A Suzhou with no damages or expenses to be borne by them. In the same month, the plaintiff appealed to the High Court and up to date, the appellate proceedings is still in progress.

According to the legal opinion from the Group's PRC lawyer, it is very likely for the appellate court to render judgement in favour of T&A Suzhou again. Accordingly, no provision was made for such litigation in the financial statements.

### 14. CAPITAL COMMITMENTS

As at 30 June 2006, the Group had capital commitments of approximately HK\$ 392,000 (31 December 2005: HK\$18,111,000) contracted, but not provided for; and HK\$11,630,000 contracted for acquisition of an associate at 31 December 2005.



## Interim Results

## 15. RELATED PARTY TRANSACTIONS

## (a) Transactions with related parties

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Transactions with ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	1,437	5,476
Interest expenses	8,926	6,630
Interest on convertible note	2,754	–
Short-term loan obtained	1,589,586	2,109,132
Transactions with subsidiaries of ultimate controlling shareholder		
Purchases of raw materials	617,264	657,143
Fund advanced	2,920	–
Master manufacturing services	–	2,424
Rental income	46	–
Rental charges	2,578	631
Transactions with a company in which a director of the Company is a shareholder		
Consultancy fee	–	450
Transactions with subsidiaries of the Group's minority shareholder		
Administrative and management services obtained	–	159,125
Sales support services obtained	–	37,573
Transactions with an associate or its subsidiaries		
Technology and software fee	46,698	–
Asset utilisation income	494	–
Fund advanced	5,654	–

## Interim Results

**15. RELATED PARTY TRANSACTIONS (continued)****(b) Other transactions with related parties**

On 9 March 2006, TCL Corporation ("TCL Corp") (the ultimate controlling shareholder of the Company) entered into the Investment Agreement with TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot") (an indirect wholly-owned subsidiary of the Company) in relation to establishment of the Finance Company. Pursuant to the Investment Agreement, Mobile Hohhot contributed RMB20 million as capital contribution to the Finance Company, representing 4% of the registered capital of the Finance Company. The establishment of the Finance Company is subject to the obtaining of the approval from the relevant PRC authorities, including but not limited to the China Banking Regulatory Commission. Further details of this transaction were set out in the Company's announcement dated 9 March 2006.

	Due from related companies		Due to related companies	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 HK\$'000	30 June 2006 (Unaudited) HK\$'000	31 December 2005 HK\$'000
Ultimate controlling shareholder	116,916	–	502,928	83,893
Subsidiaries of ultimate controlling shareholder	4,909	347,750	25,463	487,493
An associate or its subsidiaries	10,952	–	8,701	–
	<b>132,777</b>	347,750	<b>537,092</b>	571,386

**(c) Compensation of key management personnel of the Group**

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	5,625	4,629
Post-employment benefits	53	1,415
Share-based payment	3,028	206
Total compensation paid to key management personnel	<b>8,706</b>	6,250

## Interim Results

### **16. POST BALANCE SHEET EVENTS**

There was no significant event after 30 June 2006.

### **17. APPROVAL OF THE INTERIM FINANCIAL REPORT**

The condensed consolidated interim financial statements were approved by the board of directors on 30 August 2006.