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

Stock code: 1070

THE DRIVING FORCE FOR THE FUTURE

OPERATING ON GLOBAL PLATFORM, WITH MANUFACTURING BASES AND SALES NETWORK SPANNING ACROSS ALL MAJOR CONTINENTS AND A TEAM OF HIGHLY COMPETENT R&D TALENTS. THE GROUP IS COMMITTED TO SETTING THE FUTURE TRENDS OF THE TV INDUSTRY.

GEAR UP TO MOVE FORWARD

ANNUAL REPORT 2005

MAKE HEADWAY

CONTENTS

CORPORATE PROFILE

TCL Multimedia Technology Holdings Limited ("TCL Multimedia" or "the Group", stock code: 1070.HK) is a leading multimedia consumer electronics manufacturer with a global sales network. Television is the core product of the Group. This business is operated under its wholly-owned subsidiary, TTE Corporation ("TTE").

Its TVs are sold in Asia, Europe and North America under three key brands - "TCL", "THOMSON" and "RCA" respectively. Currently, TCL Multimedia is one of the largest TV players globally. Headquartered in China, TCL Multimedia operates highly efficient manufacturing plants and R&D centres across all major continents. In addition to TVs, the Group also manufactures PC & AV products.

Currently, the Company's largest and second largest shareholders are TCL Corporation ("TCL Corp") and Thomson S.A. ("Thomson") respectively.

FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

	2005 (HK$ mil)	2004 (HK$ mil)	Change
Turnover	**34,556**	25,600	+35%
Gross profit	**5,633**	4,375	+29%
Gross profit margin (%)	**16.3%**	17.1%	-0.8%
Net profit/(loss)	**(599)**	309	N/A
Basic EPS/(LPS) (HK cents)	**(18.66)**	11.29	N/A
Dividend per share (HK cents)	**–**	8.0	N/A

FINANCIAL POSITION

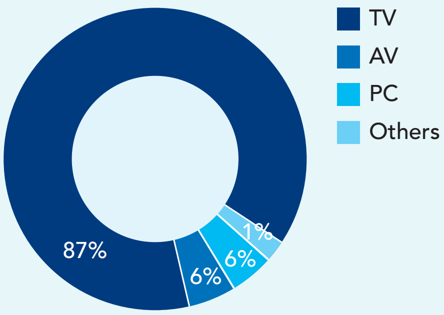
	2005 (HK$ mil)	2004 (HK$ mil)
Property, plant and equipment	**2,722**	2,390
Cash and bank balances	**1,952**	1,833
Total assets	**18,151**	16,903
Total liabilities	**14,052**	12,550
Interest-bearing debts	**4,735**	3,729
Net assets	**4,099**	4,353

OPERATION INDICATORS

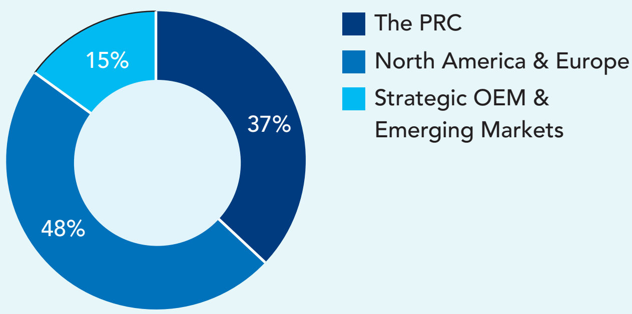
	2005	2004
Return on equity	**(15%)**	11%
Finished goods inventory turnover (days)	**35**	36
Accounts receivables turnover (days)	**63**	55
Accounts payables turnover (days)	**85**	75
Current ratio	**1.0**	1.3
Net borrowings/equity	**0.70**	0.65

Note: The above turnover days are calculated on average balance of the year.

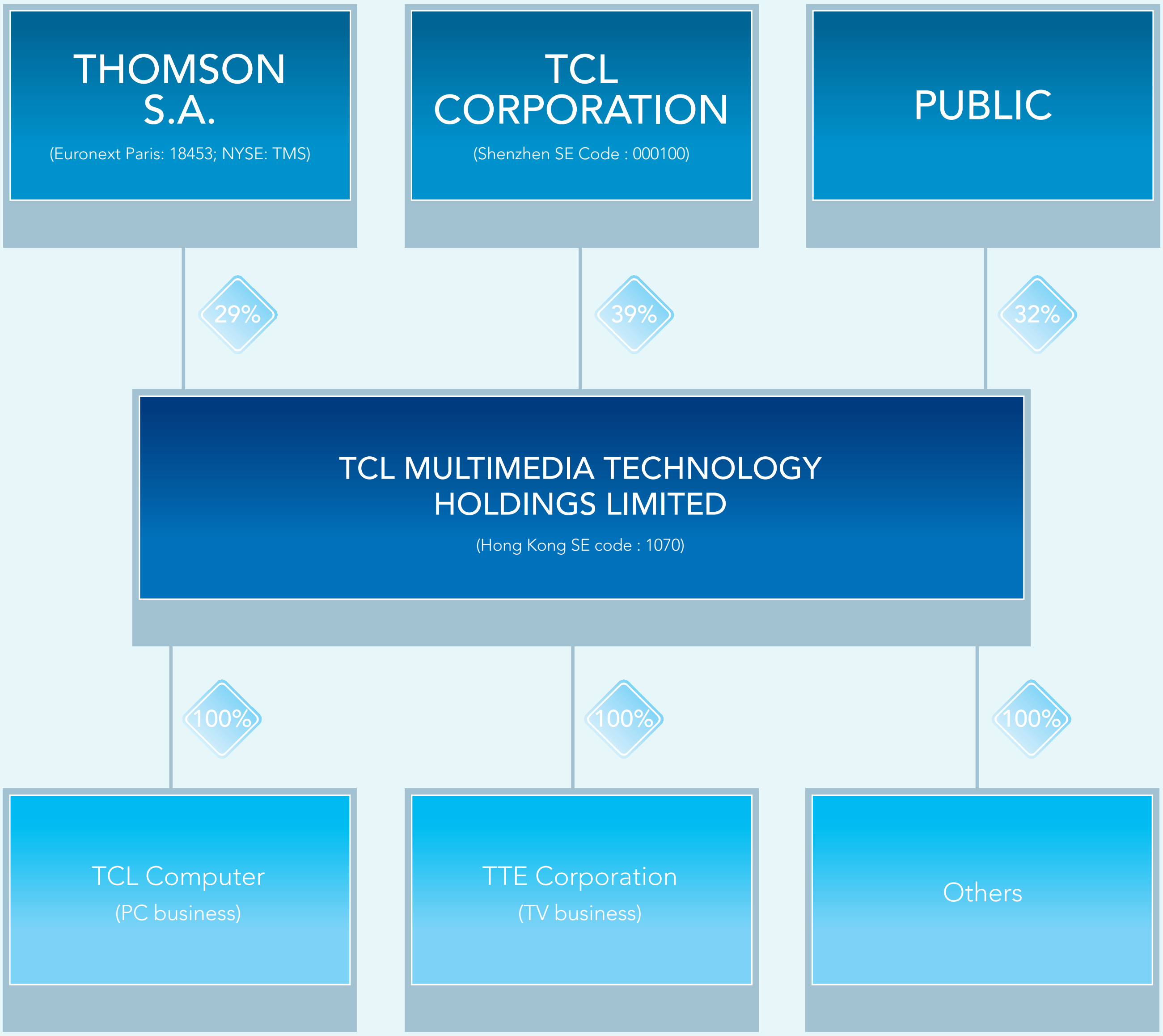
TURNOVER BREAKDOWN BY PRODUCTS



TV TURNOVER BREAKDOWN BY REGIONAL BUSINESS CENTRES



CORPORATE STRUCTURE



YEAR IN REVIEW

MARCH

Changed Company name from "TCL International" to "TCL Multimedia"

JULY

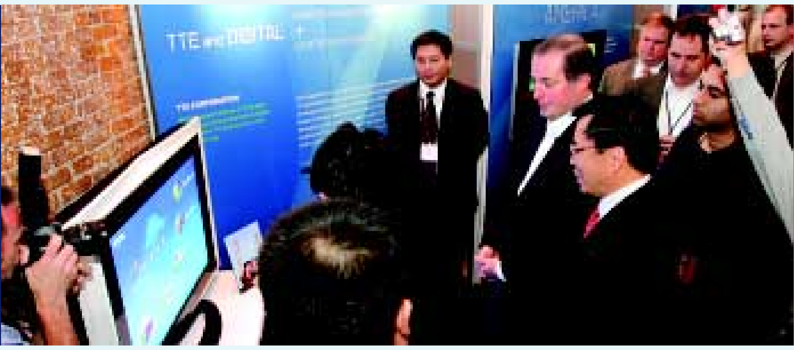
Announced the acquisition of the PRC sales network

Signed agreement for transferring sales and marketing activities in Europe and North America from Thomson to TTE

AUGUST

Exchange Option exercised by Thomson (Share Swap). Thomson became the second largest shareholder of the Company

2005



SEPTEMBER

Appointed two new directors nominated by Thomson to the Board

DECEMBER

Announced strategic cooperation with Walt Disney (TTE appointed as the sales agent of Walt Disney in the PRC)

TV
BUSINESS

YEAR 2005 IS A YEAR OF INTEGRATION, RE-ENGINEERING AND CONSOLIDATION. AFTER OVER A YEAR'S OPERATION, THE GROUP HAS ACHIEVED CONSIDERABLE PROGRESS IN MANY ASPECTS

23 MILLION
SETS TVS SOLD
IN YEAR 2005

CHAIRMAN'S STATEMENT

LI Dong Sheng
Chairman

Dear Shareholders,

Year 2005 is a year of reform and evolution. In the pursuit of excellence, the Company met different challenges on the road to internationalization, impacting its development and financial performance. During the year under review, the Company implemented a series of new measures that aims to strengthen its competitiveness in response to the difficult market condition and obstacles that arose, laying solid foundations for future development.

Since TTE, the world's largest TV enterprise, was established by the Company and Thomson in August 2004, the Company has made full commitment to combining best of the two TV leaders, with the ultimate goal of uplifting the profitability of the TTE. The Company thereby underwent business reorganization, adjusted operational management model, strengthened

THE COMPANY UNDERWENT BUSINESS REORGANISATION, ADJUSTED OPERATIONAL MANAGEMENT MODEL, STRENGTHENED SHAREHOLDING STRUCTURE, AND ENHANCED CORPORATE GOVERNANCE PRACTICES

shareholding structure, and enhanced corporate governance practices. With all these efforts paid, we are glad to see improvements in many aspects. Yet, the overall results for the year were a set of mixed results. While certain markets recorded good performance, some other markets performed unsatisfactorily.

ESTABLISHED THE FLAT PANEL AND THE CRT TV DIVISIONS

The global TV market witnessed the emergence of two trends - in developed markets, there is an increasingly strong demand for large display flat panel TVs that are light in weight and thin in shape, while in developing markets, the demand for high quality CRT TVs remained strong. As a global TV player serving the worldwide market, the Company established two major divisions, namely the flat panel TV division and the CRT TV division, to centralize the deployment of resources of its global business platform and to fully capture market opportunities.

A STRENGTHENED SHAREHOLDING STRUCTURE

During the year under review, Thomson exercised its right to swap its shares in TTE for shares of TCL Multimedia and became the Company's second largest shareholder. At the same time, TTE became a wholly-owned subsidiary of the Company. This empowered the Company to have full control over the entire operation of TTE, flexibly managing resources allocation and the functions of sales, marketing and supply chain management.

NEW MANAGEMENT INSIGHTS

With a view to further strengthening its corporate governance, the Company appointed two senior management members from Thomson Group to the Board. They are Mr. CAMPBELL Alastair Kenneth Ruskin and Mr. TRUTT Didier who brought valuable international vision and new management insights to the operations of the Company. In addition, new management members were appointed to TTE to spearhead its growth. Mr. HU Qiu Sheng, executive director of the Company, was appointed executive chairman of TTE. We believe that talents with international insight and management expertise as well as profound understanding of Chinese enterprises are crucial to the success of the internationalization process. Looking into the future, we will introduce new talented staff with high caliber and sound management philosophy, to turn the Company into the best TV enterprise in the world.

BUSINESS REVIEW

During the year under review, the Company continued to achieve remarkable performance in the PRC market, with a dominant 21% share. Amongst all of its core markets, TTE's profitability was the highest in the PRC market.

The Company's business performance in the North American market improved considerably since the establishment of TTE, as the Company successfully identified the key obstacles that hindered its business performance and tackled them with specific enhancement programmes. The results were astonishing. During the year, the Company substantially reduced the production cost of its production platform in Mexico by utilizing the edges of its production facilities in the PRC. On the other hand, it also tapped the potential of this market by focusing on the products and clients with high potential. Additional resources were placed onto major clients and business development opportunities were actively sought after. The Company also strengthened its product research and development to introduce new models suitable for the local market. The implementation of these reform measures, coupled with the realization of benefits upon business integration, the Company is pleased to see that the North American market achieved breakeven in the fourth quarter of 2005.

Prior to the establishment of TTE, Thomson Group recorded relatively stable business performance in the European market. However, unexpected changes were seen in this market in 2005, bringing results below the Company's expectation. We re-evaluated the competitive landscape and the Company's performance in the European market starting from the third quarter of 2005. Mckinsey, an acclaimed management consultancy firm, was appointed to provide a series of operational analysis and improvement solutions to the Company. We implemented the corresponding measures step by step in the fourth quarter, consolidating resources in the European market and focusing on tapping into markets with enormous potential. Europe is such a huge market that spans across wide geographical areas. To reduce transportation cost, efforts were placed on adjusting its logistics system, increasing the proportion of direct shipment to reduce transshipment costs. We expect to see visible improvements in the performance of the European market in 2006.

After years of robust development, emerging markets experienced a state of downward adjustment in 2005, which was mainly because the Company placed strong emphasis on expanding market shares in the shortest possible time and neglected the importance of strengthening its operational management capabilities to match such rapid growth. The Company will adopt a more prudent development strategy to bring this business back onto a stable growth track.

During the year under review, the Company's strategic OEM business recorded satisfactory performance. Despite the slowdown in growth rate, the Company's newly developed clients are all prominent international clients. We expect to see sustainable growth in this market.

The PC business attained steady growth during the year and maintained its market share. Along with our business globalization steps, the weight of the PC business in the total sales composition decreased drastically. Targeting mainly the PRC market, the PC business did not benefit from the Group's global business platform. The Group is considering means to re-define its business strategies for PC, in a bid to bring new breakthroughs for this business.

COMPANY OUTLOOK

Looking ahead, the Company targets to attain breakeven of its business in the European and North American markets, that contribute to the Company's overall profitability. Year 2006 will be a critical year for the Company. We expect further intensified market competition, the launch of new TV models, and the rapid decline in product price will bring forth numerous challenges to TV players. The Company will strengthen its supply chain and inventory management to reduce cost. More resources will be deployed to product research and development so as to launch products that cater to the needs of customers. The Group will increase its penetration in various markets by offering a diverse range of flat panel TVs and quality CRT TVs. The Company's competitiveness will ultimately be enhanced. In addition, the Company will fortify the management of sales and marketing activities in different markets for boosting product profitability.

The Company anticipates sustainable and stable business development in the PRC market, breakeven in North America and reduction of loss in the European market in 2006. In the long term, TCL is committed to becoming the leading TV enterprise in the world.

APPRECIATION

Without our united staff members and an insightful and energetic management with extensive international market experience, the Company would not have achieved its success to date. Under their capable leadership, the Group is well-poised to improve our performance steadily. On behalf of the Group, I would like to express my sincere gratitude to all our directors and management staff for their valuable advice during the year. I would also like to thank our shareholders, suppliers, business partners and customers for their continued support to the Group as well as our dedicated staff members for their hard work and dedication.

LI Dong Sheng
Chairman
27 April 2006

THE TV BUSINESS IS THE GROUP'S MAJOR SOURCE OF REVENUE, ACCOUNTING FOR 87% OF THE GROUP'S TOTAL TURNOVER.

HK$29.9 BILLION

TOTAL TV SALES REVENUE

BUSINESS REVIEW

Year 2005 is a year of integration, re-engineering and consolidation for the Company. A range of enhancement programmes were carried out during the year. In addition to the ongoing re-engineering efforts, in July 2005, the Group reached a definitive agreement with Thomson to finalize the transfer of sales and marketing activities in Europe and North America from Thomson to TTE. Consequently, TTE gained full control of its sales and marketing in these two major markets. This move entails a better business model with closer ties between functions of sales and marketing, supply chain, production and after-sale services, substantially enhancing efficiency and reducing the overall operating costs of the Group.

After more than one year's operation, TTE has achieved considerable progress, enabling the Group to realize synergies in operational efficiencies, with respect to product R&D, procurement as well as sales and marketing, to enhance its competitiveness in the TV industry worldwide.

Nevertheless, the financial performance of the Group's operations in Europe was below expectation as the synergies and cost savings generated since the establishment of TTE were eroded due to tough market conditions. The Group recorded a loss in 2005.

TV Business

The TV business is the Group's major source of revenue, accounting for 87% of the Group's total turnover. For the year ended 31 December 2005, a total of 23 million sets of TVs were sold worldwide, representing a growth of 38% over the same period last year and generating sales revenue of HK$29,938 million, a growth of 37% as compared to the previous year. The growth in shipment and revenue was mainly contributed by sales from European and North American markets, sales of which were not consolidated into the Group's financial statement on a full year basis in 2004 during which it was operated by the Thomson Group until August 2004.

The Group offers a diverse range of TVs under a number of reputable brand names that are present in all the major markets. Some of these major brands included the TCL brand for the PRC market, Thomson brand for the European market and RCA brand for the North American markets.

TV Unit Sales	2005 ('000)	2004 ('000)	Change
PRC	**9,236**	8,877	4%
Europe and North America	**6,129**	3,091	98%
Emerging Markets and Strategic OEM	**7,639**	4,751	61%
Total	**23,004**	16,719	38%

Our products could be broadly classified into general CRT TVs and high-end TVs (which comprised of flat panel TVs and projection TVs). General CRT TVs accounted for approximately 70% of the Group's total turnover, against 81% in 2004, while high-end TVs accounted for 30%, as compared to 19% in 2004.

The Group sees immense growth potentials in flat panel TVs and has been placing more emphasis on product design and development, supply chain management as well as sales and marketing of flat panel TVs. Products are available in a full array of different sizes. The Flat Panel TV Division, a new business unit, was established in the second half of 2005 with the aim of exploring the full potential of this fast-growing market.

The PRC Market

China continued to be the Group's largest market in terms of unit sales and revenue. A total of 9.24 million sets of TVs were sold in the PRC in 2005, up from 8.88 million sets in the previous year. This was comprised of 7.82 million sets of TCL-branded TVs and 1.42 million sets of Rowa-branded TVs. Sales revenue from the PRC TV market reached HK$11,026 million, representing an increase of 5.3% as compared to 2004 and accounting for 37% of the turnover from the TV business. This division contributed an operating profit of HK$452 million in the year under review.

Competition in the high-end TVs was relatively more intense than that in the general CRT segment. The Group witnessed a visible change in consumer appetite, shifting from general CRT TVs to flat panel TVs, and further from small flat panel TVs to large display ones.

In capturing the emerging opportunities, the Group enriched and upgraded its product offering with the introduction of new products adopting DDHD chipsets and large display LCD TV models up to 42 inches. The enriched product portfolio enhanced the product mix and gave a boost to the average product selling prices by over 1%. As such, sales of high-end TVs accounted for a higher percentage in the region's product mix, increasing from 12% in 2004 to 19% in 2005.

A total of 116 new models were launched during year 2005, of which 50 were high-end models. However, as flat panel TVs commanded a lower gross margin as compared to general CRT TVs, the change in product mix led to a marginal decrease in the gross margin of the PRC market.

The Group continued to enjoy a dominant share of 21% in the domestic TV market, which is slightly higher than the 20% share in 2004. In the fast growing LCD TV segment, the Group has also established a leading position. It took up a 10% market share and was ranked amongst the top five players during 2005. (Source for market share: Ministry of Information Industry, January to November 2005, and Company data)

The development and promotion of new LCD TV series resulted in increased R&D and marketing expenses, which exerted a temporary impact on the operating margin. As the Group further strengthens its position in the LCD TV market segment, the related expenses are expected to go down.

European and North American Markets

The Group has greatly enhanced its profile in the European and North American markets through the acquisition of the ex-Thomson TV business. In 2005, being TTE's first full year operation, the Group sold a total of 6.13 million sets of TVs in these two markets, and in aggregate, generating a sales revenue of HK$14,480 million and accounting for 48% of the total TV turnover. As fierce market competition drove down product prices and eroded the synergies arising from enhanced efficiencies and higher economies of scale, the Group recorded operational losses of HK$779 million in these two markets during the year under review.

European Market

Operating environment in the European market was tough in 2005. While the fast growing flat panel TV market was characterized by a continual price reduction, the CRT TV posted a contraction in demand. TV manufacturers were challenged with their ability to stay in the market under a thinning margin.

During the year under review, the Group made a number of strategic strides. Some of these included the repositioning of the R&D centre in Europe and the rationalization of global manufacturing platform. Despite these initiatives, there was a disruption in product introduction plan resulting from the timing mismatch between the R&D centres and the late delivery of certain components for production. These negative factors had

significant impact on the financial performance of this division. Cost savings and synergies realized in the year were hardly visible. The overall performance in European market was below management's expectation.

A total of 18 new product models were launched during the year under review, of which 16 were high-end models. In line with market development, the Group continued to make improvement in product mix. Sales value of high-end TVs accounted for 49% of the sales in the second half of the year, up from 44% in the first half of the year.

The Thomson brand remained to be a key brand in the European market with a 5% market share. (Source: GfK, Feb 2005 to Jan 2006).

North American Market

The migration from analogue to digital TVs and the emergence of the trend towards flat panel TVs were two major trends in the TV industry in North America in 2005.

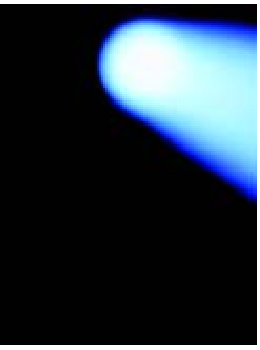
During the year under review, the Group adopted an "affordable TV" strategy that aimed at offering a compelling combination of good picture quality and styling at affordable price. In line with this strategy, the Group commenced a cost reduction programme to ensure efficient use of manpower and resources. In addition, the termination of the sales agency agreement with Thomson also contributed to cost saving.

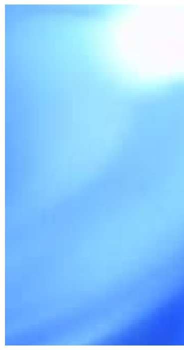
To optimize resources deployment, the Group focused on strengthening relationship with key customers through various initiatives, such as shortening the order-to-delivery cycle and providing stronger customer support. These customers are mainly national and regional chain operators which offer higher turnover rate and truckload quantities. The overall performance in the North American market met the management's expectation. A total of 44 new product models were launched, of which 29 were high-end models. Sales value of high-end TVs accounted for 47% of the sales in the second half of the year, down from 49% in the first half of the year .

The RCA brand was ranked Number 4, with a market share of 9% (Source: Synovate Jan-Nov 2005).

Emerging Markets and Strategic OEM Business

The Emerging Markets and Strategic OEM business continued to post strong volume growth. Still in an expansion mode, the two markets in aggregate sold 7.64 million units of TVs in 2005,





representing a robust growth of 61%. Sales revenue grew by 42% to HK$4,432 million and accounted for 15% of the total TV sales in 2005. These two divisions contributed an operating profit of HK$91 million.

For the Emerging Market division, the operating environment was getting tougher than before as a rising number of international players started to enter these markets.

The Group added 7 new overseas branch offices during the year under review, bringing the total number to 18. Branded business experienced remarkable growth in year 2005. The Group is pleased to see that TCL brand has gained increasing market acceptance in these fast developing markets. However, the establishment of new overseas offices incurred additional operating expenses and the promotional activities in new markets also burdened the overall operations to a certain extent. Profit margin was therefore under short-term pressure.

For Strategic OEM division, the Group benefited from the increasing outsourcing trend globally. On top of the existing customers, the Group also proactively developed new accounts and started to work with acclaimed international customers to enrich their product offering with theme decorated TVs. Geographically, the Group is exploring business opportunities in the ASEAN countries, Africa and Latin America.

PC Business

While the sales revenue from the TV business increased considerably, the importance of the PC business in the Group's total turnover decreased visibly. The PC business accounted for 6% of the Group's total turnover in the year under review. For the year ended 31 December 2005, the Group sold a total of 700,000 sets of PCs, an increase of 13% as compared to the previous year. Sales revenue amounted to HK$2,093 million, representing an increase of 6% as compared to 2004. The division contributed an operating profit of HK$23 million to the Group for the year under review.

The Group re-engineered the sales and distribution network to a leaner structure that facilitated faster response to market needs and deployed resources for the development of notebook PCs which demonstrated strong market potential. Unit shipment of desktop and notebook PCs accounted for 95% and 5% of the total sales respectively. The growth was mainly attributable to increased home PCs sales on increased promotional resources to uplift the image of TCL products.

The increased sales of high-end products such as PCs with LCD monitors widened the gross margin of this business. However, owing to the overdue receivables related to the education projects, a bad debt provision of approximately HK$43 million was made, lowering the operating margin of this division in 2005.

COMPANY OUTLOOK

The dynamic and highly competitive global TV industry will continue to emerge with new opportunities and challenges. The flat panel TV segment has swiftly emerged as the growth engine of the industry globally. Its unique operating model of requiring constant technological innovation, global manufacturing facilities, low costs structure, strong supply chain management and efficient inventory management capabilities puts the Group in a perfect position to stay ahead of its peers in this highly battled market segment. In parallel with its determination to gain its share in the flat panel TVs segment, the Group will continue to maintain its competitive advantage in the CRT segment to achieve sustainable growth.

The Group is committed to offering high quality products with innovative features and designs. It will continue to invest in the design and development to meet market needs. Its plan is to launch more than 250 new models in aggregate in 2006. Over 40% of them fall into the high-end area.

The Group aspires to be the world leader in the TV industry. It is dedicated to managing its worldwide operations more efficiently, responding quicker to ever-changing market needs, applying innovative ideas in product R&D, and ultimately, bringing us back on track to be a global TV player with competitive advantages.

The Group will continue to improve the overall business performance, in particular in the European and North American markets. Strong emphasis will be placed on improving profitability in the two markets. In Europe, comprehensive project plans will be put in place. Review and reforms will be conducted on all levels from customer, product development to human resources. The ultimate goal of all these projects is to turn around the business within the shortest period of time and to turn the European division into a profitable one by 2007. In North America, the strategies developed in 2005 will be continued and more visible results are expected to come in 2006.

FINANCIAL REVIEW

The Group's consolidated turnover for the year ended 31 December 2005 reached HK$34,556 million, an increase of 35% as compared to 2004, driven by strong TV sales across key markets. Gross profit also increased by 29% to HK5,633 million. However, due to keen competition, product price reduction was seen across markets. The Group's overall gross margin was down from 17.1% in 2004 to 16.3% this year. The Group recorded operating losses in the European and North American markets. Although synergies were generated from higher economies of scale, improved cost structure and enhanced operating efficiencies, the positive results derived from these initiatives were not sufficient to cover the losses incurred in the European and North American markets. Aggravated by a number of non-operating factors as mentioned below, the Group reported a net loss attributable to equity holders of the parent of HK$599 million for the year ended 31 December 2005.

Costs of the Group were driven up significantly by non-operating factors including (i) higher finance costs due to higher debt level, (ii) impairment of shares in TCL Communication Technology Holdings Limited, (iii) fair value loss of Thomson's Call Option held by the Company, and (iv) expenses charged for the grant of employee share options under new accounting standard. The combined effect of these factors for the year amounted to HK$287 million.

Significant Investments and Acquisitions

For its long-term benefit, the Group implemented a series of strategic moves to gain full control of sales and marketing activities, broaden its revenue base, and further grow its intellectual property portfolio. Major acquisitions or movements during the year are listed out as follows:

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

(2) On 12 July 2005, the Group and Thomson Group entered into the North America 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 former 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 transactions contemplated under the North America Transfer Agreement and the European Master Transfer Agreement took place on 1 February 2006. 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. 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 the exchange option to exchange its 33% interest in TTE for shares of the Company. TTE became a wholly-owned subsidiary after the share exchange. 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, factoring, 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 year end amounted to HK$1,952 million, of which 3% was maintained in Hong Kong dollars, 33% in US Dollars, 48% in Renminbi, 4% in Euro and 12% 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 year end.

At the year end, the Group's gearing ratio was 70% which is calculated based on the Group's net borrowings of approximately HK$2,783 (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the parent of HK$3,991 million. The Group's net borrowings included advances from banks and a factoring company as consideration for factored receivables and discounted bills amounting to HK$1,131 million in aggregate, which were recognized as liabilities on the balance sheet upon adoption of Hong Kong Accounting Standard 39. Were the net borrowings calculated under old accounting standards, the amount would have been HK$1,652 million and the Group's gearing ratio would then be 41%.

For the year under review, the Company breached certain financial covenants of bank loans with an aggregate carrying amount of HK$1,538 million, under which the lenders were entitled to demand the Company for immediate payment of all the outstanding amount. Subsequent to the balance sheet date of 31 December 2005, the Company obtained from the lenders waivers of the said breaches under the relevant loan agreements on 31 March 2006 . Paragraph 65 of HKAS 1 requires that all the outstanding amount under the bank loans should be treated as a current liability of the Company, even if the lenders have agreed, after the balance sheet date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. As a result of the re-classification of the liability, the balance sheet for the year under review may show a relatively high level of current liabilities as well as short-term borrowings. However, since the Company has obtained waivers in respect of the said breaches and the lenders have effectively waived their rights to demand payment, and the Group has retained considerable cash and bank balances, the directors of the Company consider that the Group still maintains a healthy liquidity position.

Pledge of Assets

At 31 December 2005, certain of the Group's buildings with a net book value of HK$90 million and certain time deposits of HK$90 milllion were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

At 31 December 2005, the Group had capital commitments contracted, but not provided for of approximately HK$9 million. Guarantees given in lieu of utility and rental deposits amounted to approximately HK$4 million.

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 28,296 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 year, 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 year end. Total staff costs for the year under review were approximately HK$2,000 million, of which HK$29 million were employee share option expenses recognized upon adoption of Hong Kong Financial Reporting Standard 2.

PC
BUSINESS

RE-ENGINEERING THE SALES AND DISTRIBUTION NETWORK TO A LEANER STRUCTURE, FACILITATING FASTER RESPONSE TO MARKET NEEDS.

700,000 UNITS
OF PC SOLD
IN YEAR 2005

DIRECTORS AND SENIOR MANAGEMENT

Mr. LI Dong Sheng

Ms. LU Zhong Li

Mr. HU Qiu Sheng

Mr. ZHAO Zhong Yao

EXECUTIVE DIRECTORS

Mr. LI Dong Sheng, 48, is the founder and chairman of the Company. He is responsible for formulating corporate strategy and leading the Company's management. He was awarded the following titles:

1994: "Distinguished Contributor to Development of PRC Electrical Appliance Industry"
1995: "National Excellent Young Entrepreneur"
2000: "Model of National Work Force"
2002: Representative of the 16th Central Committee of the Communist Party
"CCTV Man of the Year in the Chinese Economy"
"Annual Innovation Award"
2003: Delegate of the 10th National People's Congress
One of the most influential entrepreneurs by magazine "China Entrepreneur"


Mr. YAN Yong


Mr. Albert Thomas DA ROSA, Junior


Mr. TANG Guliang


Dr. HON Fong Ming


Mr. Didier TRUTT


Mr. Alastair Kenneth Ruskin CAMPBELL


Mr. WANG Bing

2004: "CCTV Man of the Year in the Chinese Economy"
One of the worldwide most influential business leaders by Time and CNN
French National Honor Metal (OFFICIER DE LA LEGION D'HONNEUR)

Mr. Li has more than 20 years of experience in various aspects of the electronics industry particularly in the manufacture and sales of electronic products. He is an engineer and holds a Bachelor of Science Degree from Huanan Polytechnic University. Mr. Li is the chairman of TCL Communication Technology Holdings Limited ("TCT") and TCL Corporation ("TCL Corp."). He is also the president of TCL Corp. and director of a number of subsidiaries of TCL Corp.

Ms. LU Zhong Li, 60, is director and senior vice president of TCL Corp. Ms. Lu has over 38 years of experience in financing, taxation, accounting and financial management. Ms. Lu is an accountant, graduated from Hubei University.

Mr. HU Qiu Sheng, 46, is currently the executive chairman of TTE. Mr. Hu has over 20 years of experience in product development technology, product research and sales. He joined TCL Corp. in 1993 and became the first general manager of the TV business in 1999. He was then appointed the president of Multimedia Product Division in 2002 and has held the position as senior vice president of TCL Corp. since 2003. He is an engineer and graduated with a Bachelor of Science Degree from Huanan Polytechnic University.

Mr. ZHAO Zhong Yao, 43, is currently director and senior vice president of TCL Corp. He is also the chief executive officer of TTE. Mr. Zhao has over 12 years experience in sales, marketing and management of consumer electronics business. Mr. Zhao graduated with a bachelor's degree in Electrical Engineering (Automatic Control) and a master's degree in Reliability Application in Aircraft from Northwestern Polytechnic University of PRC in 1987.

Mr. YAN Yong, Vincent, 43, joined the Company in 1999. He is currently the managing director of the Company and the chief financial officer of TTE. He is responsible for all facets of finance, taxation, legal and compliance functions, as well as strategic planning and business development for the Company. His additional roles include senior vice president at TCL Corp., CEO at Opta Corporation, and executive director at TCT. Prior to joining TCL Multimedia, he was the vice president and country general manager, China, at Tulips Computers (Asia) Limited. Mr. Yan received an MBA from Stanford University and an MS in Computer Science from Peking University.

Mr. Alastair Kenneth Ruskin CAMPBELL, 54, is the president of China business for Thomson based in Beijing, and is responsible for Thomson's government relations and country strategy. He was also a director of TTE from October 2004 to August 2005, and is currently a director of Beijing Thomson CITIC Digital Technology Co., Ltd. He previously headed the corporate advisory practice in Crosby Financial Holdings focusing on mergers and acquisitions in China, and was head of corporate finance at Bank of China International (UK) Limited from January 2000 to July 2004. He is the vice chairman of the 48 Group, formed in 1953 to promote bilateral relations with China and the China advisor to the D-Group, a UK based forum dedicated to advancing the interests of its members comprising more than 70 international companies. He graduated from Oxford University with honours in oriental studies and earned a diploma in modern Chinese language and history from Beijing University.

Mr. Didier TRUTT, 45, is senior executive vice president of Thomson since 2004 and he has been appointed chief operating officer in 2005 in charge of the corporate transverse functions for Thomson Business Operations. From 1999 to 2003, he held general management positions in the Displays business unit, firstly in charge of the Tubes Operations for Europe and Asia and then in charge of the Tubes worldwide operations. From 1996 to 1999, as vice president of manufacturing operations in Europe, Didier TRUTT was responsible for all manufacturing activities for the European Television and Video branch of Thomson. In 1994, as general manager, he launched the Digital Operations business in Europe for broadband access products. From 1987 to 1994, based in Asia, he was at first responsible for the Devices Division, then plant manager of Thomson Television Thailand and subsequently became general manager of Television and Video activities for all industrial sites in South-East Asia. From 1984 to 1987, he was in charge of implementing production pocesses and coordinating the definition of equipments in Thomson Television Components France. Didier TRUTT is also vice chairman of the Guangdong Association of Foreign Invested Enterprises in China and a Member of the National Committee of Foreign Trade Advisers of France.

NON-EXECUTIVE DIRECTOR

Mr. Albert Thomas DA ROSA, Junior, 52, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is also a fellow of the Chartered Institute of Arbitrators and a member of the Hong Kong Securities Institute. He graduated with a Bachelor's Degree in laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also non-executive director and company secretary of certain other companies listed on The Stock Exchange of Hong Kong. He also serves as a member of the Solicitors Disciplinary Tribunal Panel, as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission and as a member of the Panel of the Board of Review (Inland Revenue).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Guliang, 45, is professor at Beijing Technology and Business University. Mr. Tang holds directorships in several listed companies in the PRC. He is also a certified public accountant in the PRC and a vice secretary-general of the Accounting Society of China.

Mr. WANG Bing, 38, graduated from China Europe International Business School with a master's degree in business administration. Mr. Wang has over 10 years of experience in finance, investment, operation in capital market and assets management and is the chief executive officer of Dingtian Assets Management Co. Ltd.

Dr. HON Fong Ming, Perry, 40, graduated from Peking University and had been a post-doctorate fellow at Harvard University. Dr. Hon is the founder and major shareholder of the Dragoncom group and also holds directorships in many other listed companies, banks and financial institutions, with more than 10 years' experience in the capital market as well as mergers and acquisition operation in both China and overseas. Dr. Hon is a member of the National Committee of the Chinese People's Political Consultative Conference.

SENIOR MANAGEMENT

Mr. SHI Wan Wen, 39, is currently chief operating officer of TTE. Joining TCL Corp. in 1990, he has 18 years of experience in the manufacturing industry. He graduated with a bachelor's degree from Huanan Polytechnic University.

Dr. YI Chun Yu, Terry, 39, is vice president of TCL Corporation, executive vice president of TTE, and president of emerging market business center of TTE. Dr. Yi joined TCL Corp. in 1996 and has almost 10 years of experience in international expansion and overseas business management. He graduated from Huazhong Agricultural University and majored in investment analysis.

Mr. YU Guang Hui, 37, is currently deputy chief operating officer of TTE and the president of global operation center and flat panel TV business division. He is also holding the position of president of Strategic OEM Profit Center of TTE. After Mr. Yu joined TCL Corp. in 1993, he had worked in the Joint Venture Company between TCL and LGE and has more than ten years of experience in materials procurement, production planning and product manufacturing. He was one of the persons-in-charge in the early construction and management of the TCL King colour television's production base. He graduated from the Shaanxi Normal University with a MS in Physics and is currently pursuing a MBA at Peking University.

Mr. Jean-Marie DUBOC, 53, is deputy chief financial officer of TTE. Prior to joining the company, he has worked for Thomson group for 25 years, in which, he held various positions in finance, in France, US and Singapore. He is now responsible for finance, accounting, tax, treasury and audit under the supervision of the CFO. Jean-Marie graduated from Rouen Business school and holds a French DECS.

Mr. Jean Claude FAVREAU, 56, holds the position of chief technology officer of TTE. In his present capacity, Mr. Favreau has completed TTE R&D integration with the objective of effectively delivering competitive new products to the five business centers worldwide. He has more than 30 years of TV R&D experience with Thomson. He successively held positions in France, Singapore, Germany, and US, respectively as R&D engineer, TV project manager, R&D site manager and vice president for TV R&D. He graduated from the French Ecole Supérieure d'Electronique of Angers, France.

Ms. SHAO Guang Jie, Helen, 44, is a senior CPA and CIA. MBA. She joined TCL Corp. in 1995. She has worked as a Finance manager and chief accountant of TCL King Electronics Co., Ltd, executive vice president and president on operation of TCL Multimedia Co., Ltd, and finance controller of TCL Corp. Currently, as TTE executive vice president and general manager of TTE Global Finance Center, she is responsible for all daily financial operation. She is director of many main companies of TCL Corp. As a member of TCL top management, she has participated in the whole growing up process of TCL Group which starts from a domestic company to become an internationally renowned enterprise. She has extensive experience in consumer electronics corporate management, and is an excellent expert in financial management, and merger & acquisition. She was honored to be one of the top 10 China CFOs in 2004.

Mr. BO Lianming, 43, is executive vice president of TTE. Lianming Bo leads TTE's human resources management globally. He joined TCL Corp. in 2000 and has held a number of management positions including vice president of TCL IT Industrial Group, vice president of TCL Components Strategic Business Unit, and director of Human Resources and director of President Office in TCL Corp. Mr. Bo is a veteran in human resources and administration. Mr. Bo holds a Doctor's degree in Business Management from Xi'an JiaoTong University.

Mr. Greg BOSLER, 44, a consumer electronics professional for 18 years, was appointed executive vice president of TTE in August 2004. In this position, Mr. Bosler is responsible for general management of the TV business in North America, including profit/loss, strategic planning, product planning, sales, marketing and distribution. Prior to his current position, Mr. Bosler served as vice president/Americas TV Profit Center for Thomson's worldwide television manufacturing business. In this position, Mr. Bosler was in charge of general management for Thomson's Americas color television business. He joined Thomson in 1993, first as Florida Region Manager, and was promoted several times within Thomson Group. His responsibilities included product planning, brand strategy, marketing, merchandising, trade development and distribution of consumer electronics products. A graduate of the University of Florida, Mr. Bosler holds a Bachelor of Science degree in marketing. He is on the Board of Industry Leaders (BIL) of the Consumer Electronics Association (CEA).

Mr. Gérard P. BOCQUENET, 54, is the executive rice president of TTE and the president of TTE's European Business Centre, managing TTE's television operations in Europe. He is also a member of the Group's Executive Committee. Prior to joining TTE, Mr. Bocquenet was the vice president of Thomson's TV Profit Centre Europe and general manager of Thomson France. He possesses wide experience in management and consumer markets in Europe and formerly worked for Danone Group, Polaroid and other companies holding senior positions. Mr. Bocquenet graduated from ESC Le Havre, France and completed an international executive programme at INSEAD France.

Mr. CHAN Ying Keung, Simon, 50, vice general manager of the Company and corporate controller of TTE, joined the Company in May 2004. Mr. Chan is responsible for the accounting and finance activities of TTE. He has more than 25 years' finance and accounting experience in multinational and public listed companies. Prior to joining TTE, he was group controller of Johnson Electric Holdings Ltd. He holds an MBA degree from the University of Warwick in UK. He is a member of both the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. CHAN Oi Nin, Derek, 38, financial controller, joined the Company since 1999. He has more than 10 years of experience in auditing and accounting. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants, and also holds an MBA degree from Monash University.

CORPORATE GOVERNANCE REPORT

The Board of Directors of TCL Multimedia ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the multimedia industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In November 2004, the Stock Exchange of Hong Kong Limited ("Stock Exchange") introduced the "Code on Corporate Governance Practices" (the "Code"), which has become effective for accounting periods commencing on or after 1 January 2005, with one exception on internal controls, which comes into effect for accounting periods commencing on or after 1 July 2005. The Code sets out a series of code provisions ("Code Provisions") with which listed issuers must comply or give considered reasons for any deviations. The rules on the Corporate Governance Report are found in a new Appendix 23 of the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

In April 2005, the Board adopted the Code Provisions as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Throughout the year ended 31 December 2005, the Group complied fully with the Code.

A. Directors

A1: The Board

Code Principle

The Code requires that an issuer should be headed by an effective Board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The Board of Directors, led by the Chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

Code Provisions	Alignment	Remarks
▪ At least four meetings a year.	Yes	▪ The majority of the Board met in person 4 times in 2005, and the Board met on 9 other occasions when a Board decision is required on major issues. Attendance of individual directors is stated in the table below.
▪ All directors be given an opportunity to include matters in the agenda for regular Board meetings.	Yes	▪ Agenda are sent to directors a reasonable period of time prior to the Board meeting, and directors are encouraged to propose new items as AOB for discussion.
▪ Notice of at least 14 days be given of a regular Board meeting.	Yes	▪ The Company generally gives notice of regular Board meetings at least 14 days in advance.
▪ Access to advice and services of the company secretary.	Yes	▪ All Directors have access to the Company Secretary to seek advice and consultancy services.
▪ Minutes of meetings kept by company secretary and open for inspection. ▪ Draft and final minutes sent to all Directors for comments within a reasonable time.	Yes	▪ The company secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to directors within a reasonable time after each meeting and generally be made available for inspection by directors/committee members.

Code Provisions	Alignment	Remarks
▪ Agreed procedure for directors to seek independent professional advice at the company's expense.	Yes	▪ All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.
▪ If a substantial shareholder/director has a conflict of interest in a material matter, Board meeting should be held. Such director must abstain from voting and not be counted in quorum.	Yes	▪ The Board follows an established procedure for entering into material transactions, which provides that material transactions with connected persons must be discussed in a Board meeting, during which such director must abstain from voting and not be counted in quorum.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend.

	Attendance	
	Regular Board Meeting	Special Board Meeting
Executive Directors		
Mr. LI Dong Sheng *(Chairman)*	4/4	6/9
Ms. LU Zhong Li	4/4	1/9
Mr. HU Qiu Sheng	2/4	1/9
Mr. YAN Yong	4/4	6/9
Mr. ZHAO Zhong Yao	3/4	3/9
Mr. SUEN Hay Wai	2/2	1/1
Mr. Alastair Kenneth Ruskin CAMPBELL	1/1	–
Mr. Didier TRUTT	1/1	–
Non-Executive Director		
Mr. Albert Thomas DA ROSA, Jr.	3/4	–
Independent Non-Executive Directors		
Mr. TANG Guliang	2/4	–
Mr. WANG Bing	3/4	–
Mr. HON Fong Ming	2/4	–

Mr. SUEN Hay Wai retired from the position of executive director on 22 June 2005. All other directors served for the whole of 2005, with the exception of Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT, who joined the Board as executive director on 31 August 2005.

A2. Chairman and Managing Director

Code Principle

The Code requires the roles of Chairman and CEO to be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Code Provisions	Alignment	Remarks
Responsibilities of the Chairman ▪ Roles of Chairman and CEO should be separate, clearly established and set out in writing.	Yes	▪ The position of Chairman of the Group is held by Mr. LI Dong Sheng, while the position of CEO is taken up by the managing director, Mr. YAN Yong. This segregation ensures a clear distinction between the Chairman's duty to manage the Board and the managing director's duty to manage the Group's business. The responsibilities of the Chairman and the managing director are listed below.
▪ The Chairman should ensure all directors be briefed on issues arising at the Board meeting.	Yes	▪ Please refer to the responsibilities of the Chairman listed below.
▪ The Chairman should ensure directors to receive adequate information.	Yes	

Responsibilities of the Chairman

- Oversee the development of the long-term strategies, objectives and policies for the company
- Ensure that appropriate objectives, policies and strategies are adopted for each of the businesses of the company, that appropriate budgets are set for the businesses, that their performance is effectively monitored, and that guidance or direction is given where appropriate
- Ensure all directors are properly briefed on matters to be discussed at Board meetings
- Ensure all directors receive adequate, complete and reliable information in a timely manner
- Provide leadership for the Board
- Ensure that the Board works effectively and discharges its responsibilities
- Ensure that all key and appropriate issues are discussed by the Board in a timely manner
- Ensure that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other directors for inclusion in the agenda
- Ensure that good corporate practices and procedures are in place
- Encourage all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company
- Ensure appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole
- Facilitate the effective contribution of non-executive directors in particular and build constructive relations between executive and non-executive directors

- Ensure that queries raised by directors on Board papers and related materials are responded to in a timely manner
- Ensure the Board's responsibility to represent a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements
- Attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing his/her duly appointed delegate, to be available to answer questions at the AGM

Responsibilities of the Managing Director

- Provide leadership to the management for the implementation of the company's policy and report to the Board
- Oversee the realisation by the company of the objectives set by the Board
- Provide all such information to the Board as necessary to enable the Board to monitor the performance of management
- Put in place programmes for management development and succession
- With the financial controller, establish and maintain proper internal controls and systems as well as disclosure controls and procedures
- Discharge such duties and authority as may be delegated to him/her by the Board
- Be responsible to the Board for the development of the company and its operation, including the profits, cash and costs of all businesses
- Ensure that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board
- Advise the chairman on the allocation of duties to individual directors and the assignment of ad-hoc responsibilities or special tasks to directors or groups of directors
- Lead the company's processes for communicating to, and consulting with, employees
- Lead the company's public relations, including relations with the company's shareholders, governments, other public organizations, other companies and the public generally
- Regularly keep the chairman informed of all matters that may be of importance to the company, including its current performance and progress

A3: Board Composition

Code Principle

The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

Code Provisions	Alignment	Remarks
▪ Identify the independent non-executive directors in all corporate communications.	Yes	▪ Independent non-executive directors of the Group are disclosed in all major corporate materials as well as on the corporate website www.tclhk.com
Recommended Best Practice		
▪ Maintain on the website an updated list of its directors identifying their role, function and (where applicable) independence.	Yes	▪ Please refer to the corporate website www.tclhk.com.

The Board comprises 11 directors, including 7 executive directors, 1 non-executive director and 3 independent non-executive directors. The biographies of the directors are given in the section "Director and Senior Management" of this Annual Report. None of the Directors is related to each other.

The non-executive directors, 75% of whom are independent, also play an important role on the Board. Accounting for more than one third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole.

Throughout 2005, the Board at all times met the requirements for having at least 3 Independent non-executive directors ("INEDs"), and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED of his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A4: Appointment, Re-election and Removal

Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Nomination of Directors

The Board has not established a Nomination Committee, and the selection and approval of new directors is undertaken by the Board. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to election by shareholders at the first general meeting after the appointment.

In 2005, there were 2 Board Meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of directors. During the Board Meeting held on 30 August 2005, the Board considered the nomination submitted by Thomson S.A. ("Thomson") to have Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT appointed as new directors, and decided to have further discussions with Thomson on the nomination before confirming such appointment.

During the Board meeting held on 28 October 2005, the Board adopted a "Procedure and Criteria for Nomination of Directors", the details of which are set out below:

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors
   - (a) Character and integrity
   - (b) The willingness to assume broad fiduciary responsibility
   - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
   - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company
   - (e) Significant business or public experience relevant and beneficial to the Board and the company
   - (f) Breadth of knowledge about issues affecting the company
   - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
   - (h) Ability and willingness to contribute special competencies to Board activities
   - (i) Fit with the company's culture
2. Criteria Applicable to NEDs/INEDs
   - (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   - (b) Accomplishments of the candidate in his/her or her field
   - (c) Outstanding professional and personal reputation
   - (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

The directors' attendance at the 2 Board meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of directors is listed below:

	Attendance
Executive Directors	
Mr. LI Dong Sheng *(Chairman)*	2/2
Ms. LU Zhong Li	2/2
Mr. HU Qiu Sheng	1/2
Mr. YAN Yong	2/2
Mr. ZHAO Zhong Yao	1/2
Mr. SUEN Hay Wai	N/A
Mr. Alastair Kenneth Ruskin CAMPBELL	1/1
Mr. Didier TRUTT	1/1
Non-Executive Director	
Mr. Albert Thomas DA ROSA, *Jr.*	2/2
Independent Non-Executive Directors	
Mr. TANG Guliang	2/2
Mr. WANG Bing	2/2
Mr. HON Fong Ming	2/2

Code Provisions	Alignment	Remarks
▪ Non-executive directors should be appointed for a specific term, subject to re-election. ▪ All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting. ▪ Every director should be subject to rotation at least once every three years.	Yes	▪ In the last AGM held on 22 June 2005, all four non-executive Directors were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders. One-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the AGM in each year. A retiring director is eligible for re-election. ▪ Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT, appointed on 31 August 2005 as Directors, were elected at the general meeting held on 27 February 2006, which is the first general meeting held after their appointments.

A5: Responsibilities of Directors

Code Principle

Every director is required to keep abreast of his/her responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.

Code Provisions	Alignment	Remarks
▪ Every newly appointed director should receive a comprehensive, formal induction	Yes	▪ Upon being appointed to the Board, each new director receives a comprehensive induction programme on the business of the Group, the duties of a director under both general law (common law and legislation) and the Listing Rules, and the terms of reference of the Board Committees. ▪ The directors receive further briefings when there are new developments to such information.
▪ Functions of non-executive directors include: – Bring an independent judgment at the Board meeting; – Take the lead where there is potential conflicts of interests; – Serve on committees if invited; – Scrutinize the issuer's performance	Yes	▪ Strategic planning and monitoring are two major roles for the Company's directors. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required.
▪ Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.	Yes	▪ To ensure they can give sufficient attention to the Company, the directors have disclosed the number and nature of offices they held in public companies or organizations and other significant commitments. For details regarding the offices held by the directors, please refer to the section "Report of the Directors" of this Annual Report.
▪ Directors must comply with their obligations under the Model Code.	Yes	▪ Please refer to the discussion on directors' securities dealing below.

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2005 are set out in the section "Report of the Directors" of this Annual Report.

A6: Supply and Access to Information

Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code provisions	Alignment	Remarks
▪ Board papers should be sent to all directors at least three days before the date of Board/Committee meeting (or such other period as agreed).	Yes	▪ Board papers are dispatched to Board/ Committee members within a time agreed by them prior to meetings.
▪ Each director should have separate and independent access to senior management.	Yes	▪ All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.
▪ Directors are entitled to have access to Board papers; steps must be taken to respond properly and fully to director queries.	Yes	▪ Board papers and minutes are made available for inspection by Directors and Committee Members.

B. Remuneration of Directors and Senior Management

B1. The Level and Make-up of Remuneration and Disclosures

Remuneration of Directors

Code Principle

Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Remuneration Committee was established in April 2005 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Committee is governed by its terms of reference, which are available at the Group's website www.tclhk.com.

The Committee consists of 5 members, a majority of whom are INEDs, namely Mr. WANG Bing, who is also the chairman of the Committee, Mr. TANG Guliang and Mr HON Fong Ming. The other two members are non-executive director Mr. Albert Thomas DA ROSA, Jr. and executive director Madam LU Zhong Li.

During 2005, one meeting was held by the Committee which was attended by all its 5 members. The work it performed in the meeting includes:

- determining the basis of the remuneration of the newly appointed executive directors Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT;
- reviewing the emolument policy and the levels of remuneration paid to the directors and senior management of the Group; and
- making the decision to engage an independent firm of consultants to review the emolument policy for Directors and senior management of the Group.

All the members attended the Remuneration Committee meeting in 2005.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and calibre, the Group provides a competitive remuneration package to its executive directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay and long-term incentive plan. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. Long-term incentive plan primarily consists of stock options. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually; and
- shares of the Group, which is awarded subject to the discretion of the Board.

The fees and any other reimbursement or emolument payable to the Directors are set out in details in the section "Report of the Directors" of this Annual Report.

C. Accountability and Audit

C1: Financial Reporting

Code Principle

The Board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

For the financial year under review, the Company has breached certain financial covenants under (i) USD180 Million Term & Revolving Loan Agreement dated 16 November 2004; and (ii) HK$400 Million Term Loan Facility Agreement dated 23 December 2002 as amended and supplemented by a Deed of Amendment, Novation and Release dated 30 July 2004 which entitled the lenders thereunder to demand the Company for immediate payment of all the outstanding amount thereunder. Subsequent to the balance sheet date of 31 December 2005, the Company obtained from the lenders relevant waivers of the said breaches under the said two loan agreements on 31 March 2006.

Paragraph 65 of Hong Kong Accounting Standard 1 requires that all the outstanding amount under the said two loan agreements totaling approximately HK$1,538 million will be treated as a current liability of the Company, even if the lenders under the said two loan agreements have agreed, after the balance sheet date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. As a result of the re-classification of the liability, the accounts for the financial year under review may indicate uncertainty in the Company's ability to continue operation as a going-concern. However, since the Company has obtained waivers in respect of the said breaches and the lenders have effectively waived their rights to demand payment, the directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

C2: Internal Controls

Code Principle

The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Alignment	Remarks
▪ The directors should at least annually conduct a review of the effectiveness of the system of internal controls.	Yes	▪ The Audit Committee has scheduled to devise a plan to review the systems of internal control of the Group in early 2006, and will carry out the plan accordingly within 2006.

Management currently takes the view that there is no immediate need to set up an Internal Audit function at the Group level in light of the fact that an Internal Audit function was set up by the wholly-owned subsidiary, TTE Corporation, in November 2005. The Internal Audit function of TTE Corporation reports directly to the managing director of the Group. It also reports to the Audit Committee at least twice a year.

C3: Audit Committee

Code Principle

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

Code Provisions	Alignment	Remarks
▪ Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time.	Yes	▪ Minutes are kept by the company secretary and are sent to all members within a reasonable time after each meeting.
▪ A former partner of the existing auditors should not sit on the Audit Committee.	Yes	▪ The Committee does not have any members who used to work for the firm of external auditors of the Company.
▪ The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the website.	Yes	▪ Please visit www.tclhk.com to download/view the information
▪ Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the Board disagrees with the committee's view.	Yes	▪ The Audit Committee has recommended to re-appoint Messrs. Ernst & Young to be the Company's auditors, and the Board agrees to this recommendation.
▪ The audit committee should be provided with sufficient resources to discharge its duties.	Yes	▪ There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

The Audit Committee comprises 4 members, namely Mr. HON Fong Ming, Mr. TANG Guliang, Mr. WANG Bing and Mr. Albert T. DA ROSA, Jr. Mr. TANG Guliang is the chairman of the Committee. He is a certified public accountant in the PRC and a professor at Beijing Technology and Business University. The Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2005, the Committee met 5 times. Details of the members' attendance at the Audit Committee meetings in 2005 are as follows:

	Attendance
Mr. Albert Thomas DA ROSA, Jr.	5/5
Mr. TANG Guliang	5/5
Mr. WANG Bing	5/5
Mr. HON Fong Ming	4/5

Other attendees at the Audit Committee meetings include the Group's financial controller, the vice general manager, and the external auditors for discussion of the audit of the annual results only.

The work completed by the Audit Committee during 2005 included consideration of the following matters:

- the completeness and accuracy of the 2004 annual and 2005 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2004;
- the audit fees payable to external auditors for year 2005;
- the recommendation to the Board to increase human resources experienced in international finance to cater for the growing needs of the Group;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Ernst & Young as the external auditors, which the Board agreed and accepted;

D. Delegation by the Board

D1: Management Functions

Code Principle

An issuer should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the issuer.

Code Provisions	Alignment	Remarks
▪ Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the Board.	Yes	The functions reserved to the Board are listed below.
▪ Formalise the functions reserved to the Board and those delegated to management.	Yes	▪ Please refer to section D2 – Executive Committee for a list of functions delegated to management.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies

D2: Board Committees

Code Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Code Provisions	Alignment	Remarks
▪ Clear terms of reference to enable proper discharge of committee functions.	Yes	▪ Please visit www.tclhk.com to download the "Terms of Reference" of the Remuneration Committee and the Audit Committee.
▪ The terms of reference should require committees to report their decisions to the Board.	Yes	

The Board has set up a number of Board Committees to oversee particular aspects of the Group's affairs. In particular, the Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference. It is responsible for implementing the objectives and strategic plans approved by the Board. To facilitate its work, the Board has delegated to the Executive Committee the power to make various types of decisions.

The Executive Committee consists of 4 Executive Directors as its members, namely Mr. LI Dong Sheng, Mr. HU Qiu Sheng, Mr. YAN Yong and Mr. ZHAO Zhong Yao.

The Executive Committee met twice in 2005 since its establishment in October 2005, and its work in this period includes:

- approving the appointment and accepting the resignation of the authorised representative and qualified accountant of the Group; and
- approving the change of the location of register of members.

The Executive Committee was set up in late October 2005, and thus only 2 meetings were convened in December 2005. The members' attendance at the Executive Committee meetings in 2005 is set out below:

	Attendance
Mr. LI Dong Sheng	–
Mr. HU Qiu Sheng	2/2
Mr. YAN Yong	2/2
Mr. ZHAO Zhong Yao	–

E. **Communication with Shareholders**

E1: Effective Communication

Shareholders

Code Principle

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Alignment	Remarks
▪ A separate resolution be proposed by the chairman for each substantially separate issue at that meeting.	Yes	▪ Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.
▪ The chairman of the Board should attend the annual general meeting and arrange the Chairman of the Board Committees to attend.	Yes	▪ The Chairman attended the annual general meeting and the relevant chairmen of the Board Committees were arranged to answer questions at the general meetings.

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. The Company's AGM and EGM allow the directors to meet and communicate with shareholders. The Chairman is actively involved in organizing the AGM and personally chairs it, to ensure that shareholders' views are communicated to the Board. AGM proceedings are reviewed periodically to ensure that the Company follows best corporate governance practices. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures and other relevant information.

Shareholders can convene an EGM by following the procedure below:

- Any two or more shareholders or any one shareholder who is a recognized clearing house (or its nominee(s)), holding not less than one-tenth of the paid up capital of the Group, can deposit a written request to convene an EGM at 13/F TCL Tower, 8 Tai Chung Road, Tsuen Wan, NT, Hong Kong, the principal office of the Group in Hong Kong.
- The written request must state the objects of the meeting and signed by the shareholders concerned.

The most recent shareholders' meeting was the EGM held on 13 April 2006 at the J.W. Marriot Hotel in Hong Kong. The items discussed and the percentage of votes cast in favour of the resolutions regarding those items is set out below:

- Approved the Deposit Services under the Financial Services Framework Agreement and the proposed caps set out in the Notice of EGM: 83%

Investor Relations

The Company endeavours to maintain a high level of corporate transparency. Keeping shareholders[1], investors, analysts and bankers and other stakeholders aware of our corporate strategies and business operations is one of the missions for our investor relations team.

Led by the managing director, the Investor Relations team receives the greatest devotions of efforts from the Company, and maintains frequent communications with its key communication groups, to ensure that important information is disclosed timely through various effective channels, such as one-on-one analysts meetings, corporate presentation, company visits, press releases, etc. The Company hosted this kind of activities right after the results were announced, with directors and senior management present to address questions.

After the formation of TTE in 2004, TCL Multimedia has extended its market reach globally. Investors' interests are increasingly drawn towards gathering information on the Company's performance in the global marketplace. Our Investor Relations Team is trying its utmost to address the concerns of investors in a proactive manner.

In 2005, the Company's dedicated Investor Relations team held regular meetings with investors to keep them abreast of the Company's development and its future strategies. Senior management of the Company took part in several investor conferences during the year, including Merrill Lynch Pacific Rim Technology Conference in Shanghai and the CLSA China Forum in Beijing.

[1] The Company has a diversified shareholding structure with 32% public float. Key shareholders are shown in the section "Corporate Structure"

Key investor events in 2005

Event	Date
EGM (Change of Company Name)	22 February 2005
2004 Annual Results Announcement – Press Conference and Analyst Briefing	18 April 2005
2005 1st Quarter Results Announcement – Investor Conference Call	29 April 2005
2005 AGM	22 June 2005
2005 Interim Results Announcement – Press Conference and Analyst Briefing	30 August 2005
2005 3rd Quarter Results Announcement – Investor Conference Call	28 Oct 2005

Looking forward, our Investor Relations team will work continuously to enhance the quality of communication and uphold the corporate transparency. To ensure easy access of the Company's updated information, all of our published information including the statutory announcements, press releases and event calendars, are promptly posted on our newly-revamped website www.tclhk.com. Viewers can also put enquiries to the Board or senior management by contacting the Investor Relations Department at (852) 2437 7481 or email to hk.ir@tcl.com or directly by questions at an AGM or EGM.

Key investor events in 2006

Event	Date
EGM (Proposed increase in authorised share capital, continuing connected transactions and re-election of directors)	27 February 2006
EGM (Financial Service Framework Agreement)	13 April 2006
2005 Annual and 2006 1st Quarter Results Announcement – Press Conference and Analyst Briefing	27 April 2006
2006 AGM	Mid-June 2006
2006 Interim Results Announcement – Press Conference and Analyst Briefing	End August 2005
2006 3rd Quarter Results Announcement	End Oct 2005

E2: *Voting by Poll*

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Alignment	Remarks
Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll.	Yes	▪ Procedures for demanding a poll were set out in the circular accompanying the general meeting notices. The procedures were also explained during the general meeting proceedings.
▪ Ensure that votes cast are properly counted and recorded.	Yes	▪ A representative of external auditor was appointed as scrutinizer.
▪ Chairman of meeting should adequately explain the poll procedures at commencement of meeting.	Yes	▪ Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.

F. **Beyond the Code**

The Group does not take the Code as the ceiling for its corporate governance practices, and goes beyond the Code in the following aspects:

- Appropriate insurance cover has been arranged in respect of legal action against the directors and senior officers.
- All Board Committees adopt the same principles applicable to Board meetings to govern the procedures for their meetings, including but not limited to the length of notice given to members in advance of meetings, and the mechanism for members to inspect the meeting minutes.
- A significant proportion of the executive directors' remuneration is structured so as to link rewards to corporate and individual performance.
- Since 2001, the Group has adopted the practice to announce its quarterly financial results within 45 days after the end of the relevant quarter, and such quarterly financial reports are prepared using the same accounting policies applied to the interim and annual accounts.
- Since April 2001, the Group has volunteered to provide monthly shipment data for its key products in order to keep investors informed of the latest trend of its business.

HUMAN RESOURCES AND SOCIAL RESPONSIBILITY

HUMAN RESOURCES

TCL Multimedia constantly upgrades its human resources management. The need to do so became more imminent upon the establishment of TTE. As a world-class company, TCL Multimedia requires international talents to support and drive its development. Human resources management definitely tops our priority list.

As at 31 December 2005, TCL Multimedia employed a total of 28,296 employees. They are not only expected to contribute to the growth of the Company, but also to grow personally. In the year under review, a total of 96 training sessions were conducted for employees of different levels and functions. At the level of TTE headquarter, training sessions cover areas including cross-cultural communication, language skills enhancement workshops, legal knowledge and financial management. On top of the in-house training sessions, employees can be subsidized for joining the education programmes offered by recognized educational institutions for further enhancing their professional knowledge.

To expedite staff development and propel future growth, TCL Multimedia has established a set of key performance indicators (KPI) to evaluate and review individual staff performance. This KPI system benchmarks personal achievements against the Company's overall development and therefore is a good way to ensure that employees' personal goals align with the Company's business objectives, thereby enabling the two parties to grow hand-in-hand together.

SOCIAL RESPONSIBILITY

TCL Multimedia commits to sharing the fruits of its development with the community and helping the people in need.

In jointed effort with its parent company, TCL Corporation and its sister company, TCL Communication Technology Holdings Limited (collectively the "TCL Group"), the Company conducted a series of charity campaign in Mainland China. Donations were made to the Guangdong Youth Development Foundation, to fund a primary school in Huizhou, Guangdong Province and to establish scholarships to finance university education of poor students. Up to 2005, the TCL Group has completed a total of 23 Hope School projects in different regions of the PRC.

ANALYST CONTACT LIST

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SUN HUNG KAI INVESTMENT SERVICES LTD.
Mr. Steven Yuan
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman
Mr. LI Dong Sheng

Executive Directors
Ms. LU Zhong Li
Mr. HU Qiu Sheng
Mr. ZHAO Zhong Yao
Mr. YAN Yong, Vincent
Mr. Alastair Kenneth Ruskin CAMPBELL
Mr. Didier TRUTT

Non-Executive Director
Mr. Albert Thomas DA ROSA, Junior

Independent Non-Executive Directors
Mr. TANG Guliang
Mr. WANG Bing
Dr. HON Fong Ming, Perry

COMPANY SECRETARY
Ms. PANG Siu Yin, Solicitor, Hong Kong
Cheung, Tong & Rosa
Room 1621–33, 16/F
Sun Hung Kai Centre
30 Harbour Road
Hong Kong

PRINCIPAL BANKERS
Agriculture Bank of China
Bank of China (Hong Kong) Limited
Commerz (East Asia) Limited
Societe Generale Asia Limited
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation
The Bank of East Asia, Limited
The Hongkong & Shanghai Banking Corporation Limited
Wachovia Bank, N.A.

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

PRINCIPAL REGISTRAR
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
PO Box 705, George Town
Grand Cayman
Cayman Islands

BRANCH REGISTRAR
Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL OFFICE
13th Floor
TCL Tower
8 Tai Chung Road
Tsuen Wan
New Territories
Hong Kong

REGISTERED OFFICE
Ugland House
South Church Street
PO Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

INVESTOR AND MEDIA RELATIONS
iPR Ogilvy Ltd.
Rooms 805–809
8th Floor, Alexandra House
16–20 Chater Road
Central, Hong Kong

REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

CHANGE OF COMPANY NAME

The name of the Company was changed from "TCL International Holdings Limited" to "TCL Multimedia Technology Holdings Limited" on 25 February 2005. The Chinese translation of the Company's name for identification purpose was changed from TCL 國際控股有限公司 to TCL 多媒體科技控股有限公司.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 131.

The directors do not recommend the payment of any dividend in respect of the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 132. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year, together with the reasons therefore, are set out in notes 34 and 37 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$3,700,681,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$1,367,000.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	5%
– the five largest suppliers combined	19%
Sales	
– the largest customer	8%
– the five largest customers combined	19%

Three out of the five largest suppliers are companies controlled by Thomson S.A.. Save as disclosed above, none of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Li Dong Sheng *(Chairman)*
Lu Zhong Li
Hu Qiu Sheng
Zhao Zhong Yao
Yan Yong, Vincent *(Managing Director)*
Alastair Kenneth Ruskin Campbell *(appointed on 31 August 2005)*
Didier Trutt *(appointed on 31 August 2005)*
Suen Hay Wai, Felipe *(retired on 22 June 2005)*

Non-executive director:
Albert Thomas da Rosa, Junior

Independent non-executive directors:
Tang Guliang
Wang Bing
Hon Fong Ming, Perry

In accordance with article 116 of the Company's articles of association, Mr. Li Dong Sheng, Mr. Zhao Zhong Yao, Mr. Yan Yong, Vincent and Ms. Lu Zhong Li will retire by rotation and will be eligible for re-election at the forthcoming annual general meeting. Mr. Li Dong Sheng, Mr. Yan Yong, Vincent and Ms. Lu Zhong Li will but Mr. Zhao Zhong Yao will not offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors will cease to hold such office at the conclusion of the forthcoming annual general meeting. Mr. Albert Thomas da Rosa, Junior, Mr. Tang Guliang and Mr. Wang Bing, being eligible, will but Dr. Hon Fong Ming will not offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

EMOLUMENTS OF DIRECTORS AND THE 5 HIGHEST-PAID EMPLOYEES

Particulars of the emoluments of the directors and the 5 highest-paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 37 to 38 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 36 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 28 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the ''SFO'')), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the ''Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(i) Long positions in shares of the Company

Directors	Type of interest	Number of shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	17,232,000	0.44%
Zhao Zhong Yao	Beneficial owner	232,000	0.006%

(ii) Long positions in underlying shares of the Company – share options

Directors	Type of interest	Number of underlying shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	5,000,000	0.13%
Hu Qiu Sheng	Beneficial owner	2,500,000	0.06%
Lu Zhong Li	Beneficial owner	2,500,000	0.06%
Yan Yong, Vincent	Beneficial owner	3,518,000	0.09%
Zhao Zhong Yao	Beneficial owner	3,268,000	0.08%
Albert Thomas da Rosa, Junior	Beneficial owner	300,000	0.008%
Tang Guliang	Beneficial owner	300,000	0.008%
Wang Bing	Beneficial owner	300,000	0.008%
Hon Fong Ming, Perry	Beneficial owner	300,000	0.008%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(iii) Long positions in shares of associated corporations of the Company

Directors	Name of associated corporation (Notes)	Type of interest	Number of shares held	Percentage of issued share capital of the relevant associated corporation
Li Dong Sheng	TCL Corporation	Beneficial owner	144,521,730	5.59%
Li Dong Sheng	TCL Communication	Beneficial owner	36,614,400	1.23%
Lu Zhong Li	TCL Corporation	Beneficial owner	23,569,661	0.91%
Hu Qiu Sheng	TCL Corporation	Beneficial owner	19,012,888	0.74%
Zhao Zhong Yao	TCL Corporation	Beneficial owner	6,444,954	0.25%
Zhao Zhong Yao	TCL Communication	Beneficial owner	92,800	0.003%

Notes:

(a) TCL Corporation is the ultimate controlling shareholder of the Company.

(b) TCL Communication Technology Holdings Limited ("TCL Communication") is a subsidiary of TCL Corporation.

(iv) Long positions in underlying shares of associated corporations of the Company – share options

Directors	Name of associated corporation	Type of interest	Number of underlying shares held	Percentage of issued share capital of the relevant associated corporation
Li Dong Sheng	TCL Communication	Beneficial owner	5,000,000	0.17%
Lu Zhong Li	TCL Communication	Beneficial owner	2,500,000	0.08%
Hu Qiu Sheng	TCL Communication	Beneficial owner	2,500,000	0.08%
Yan Yong, Vincent	TCL Communication	Beneficial owner	1,050,000	0.04%
Zhao Zhong Yao	TCL Communication	Beneficial owner	800,000	0.03%

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 37 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/ her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Details of the share options granted during the year are set out in note 37 to the financial statements.

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

SHARE OPTION SCHEMES *(Continued)*

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the following persons (other than a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Shareholders	Type of interest	Number of shares held (Notes)	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289	38.74%
Thomson S.A.	Interest of controlled corporation	1,144,182,095	29.32%

Notes:

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

(b) Thomson S.A. is deemed to be interested in 67,610,864 shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company whose interests are set out in the section ''Directors' and chief executive's interests and short positions in shares, underlying shares and debentures'' above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with the following connected persons (as defined in the Listing Rules), namely:

(1) TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (being an associate of TCL Corporation); and

(2) Thomson S.A. (''Thomson'') (being a substantial shareholder of the Company and a then controlling shareholder of TTE Corporation (''TTE''), a then non-wholly owned subsidiary of the Company) and its subsidiaries (being an associate of Thomson) (collectively, the "Thomson Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2005:

(a) The Group and Thomson entered into two binding memoranda of understanding on 21 April 2005 in respect of:

    (i) the transfer of certain activities from Thomson to TTE and other matters related thereto; and

    (ii) the amendment of the Existing Angers Agreement.

    Such memoranda were superseded by the Transfer Agreements and the Related Agreements as more particularly set out in the circular of the Company dated 2 August 2005.

(b) The Company and TCL International Electronics (BVI) Limited, its direct wholly-owned subsidiary, entered into a sale and purchase agreement with TCL Corporation on 4 July 2005 for the acquisition of the 49% equity interest in TCL Electrical Appliance Sales Co., Ltd (''Sales Co.'') from TCL Corporation at a consideration of Euro 6.5 million. Closing of the transaction was expected to be completed in May 2006, and after the closing Sales Co. will become a wholly-owned subsidiary of the Group.

CONNECTED TRANSACTIONS *(Continued)*

(c) The Group and Thomson entered into the Transfer Closing Agreements on 1 September 2005 for the transfer of the sales and marketing activities in Europe and North America from Thomson to TTE. The closing of the Transfer Agreements gave rise to the termination or modifications of certain agreements entered into between the Group and the Thomson Group when TTE was established. Further details of the Transfer Agreements were set out in the circular of the Company dated 2 August 2005.

(d) The Company entered into a sale and purchase agreement with Opta Systems, LLC., a company controlled by TCL Corporation, on 26 July 2005 to purchase certain intellectual property rights including trademarks, service marks, patents applications and copyrights at an adjusted consideration of US$9.3 million.

(e) The Company entered into an Option Closing Agreement with Thomson on 10 August 2005 and closing of the Exchange Option took place on the same day pursuant thereto. A total of 1,144,182,095 shares representing 29.32% of the enlarged issued share capital of the Company were issued to Thomson. On the same date, TTE received Euro 15,437,000 as a net settlement of: (i) Thomson's obligations under the DVD Option Agreement dated 30 July 2004 to contribute to TTE assets at a value of Euro 20,000,000 when TTE had decided not to exercise the option to acquire the Thomson DVD business; and (ii) the Company's obligations to pay Thomson HK$43,800,000 being the net compensation payable by the Company under the Exchange Option Agreement dated 30 July 2004. Further details of the aforesaid agreements were set out in the circular of the Company dated 31 May 2004.

(f) On 31 December 2005, the Company, TCL Corporation, TTE and Thomson entered into the Settlement Agreement and pursuant to which the Group agreed to pay to Thomson and Thomson also agreed to pay to the Group an aggregate amount of HK$17,474,000 and HK$51,513,000, respectively, as compensation for the shortfall of assets contribution by each other according to the Combination Agreement.

The Group entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2005:

(a) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 entered into between the Company and TCL Corporation in connection with the purchases of electronic or electrical products from TCL Corporation and its subsidiaries (the ''Supplier Group'') for supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from the Supplier Group amounting to HK$108,217,000 during the year.

(b) Pursuant to the Master Supply Agreement dated 15 November 1999 entered into between the Company and TCL Corporation (as amended by the Deed of Variation on 11 December 2002), the Group (i) sold overseas raw materials to TCL Corporation amounting to HK$1,342,848,000; (ii) purchased overseas raw materials from TCL Corporation amounting to HK$1,287,684,000; (iii) purchased PRC TV related components and materials from TCL Corporation and certain of its subsidiaries amounting to HK$36,474,000 and; (iv) sold raw materials to certain subsidiaries of TCL Corporation amounting to HK$4,654,000 during the year.

(c) Pursuant to the Distribution Agreement dated 15 November 1999 entered into between the Company and Sales Co. (a company which was owned as to 49% by TCL Corporation before closing of the acquisition of 49% interests in the Sales Co. by the Group in May 2006) (as amended by the Deed of Variation on 11 December 2002), there was no services fees and/or commissions paid by the Group to Sales Co. during the year.

(d) The Group used subcontracting services provided by a subsidiary of TCL Corporation, for which subcontracting fees amounting to HK$13,066,000 were paid during the year.

(e) Pursuant to the Thomson Strategic Sourcing Agreement dated 30 July 2004 entered into between TTE and Thomson, TTE paid Thomson for the use of certain information systems at the ex-Thomson sites to facilitate its sourcing activities a fee of HK$27,000,000 during the year.

(f) Pursuant to the Television Patent License Agreement dated 30 July 2004 entered into between TTE and Thomson Licensing S.A. (''TLSA'') (a wholly-owned subsidiary of Thomson) under which TLSA granted to TTE and its subsidiaries license, right and privilege under all of the patents owned, controlled and/or acquired by TLSA to make, lease and sell analog colour television receivers, the Group paid to TLSA royalties amounting to HK$30,991,000 during the year.

CONNECTED TRANSACTIONS *(Continued)*

(g) Pursuant to the Receivables Purchase and Sales Agreement dated 30 July 2004 entered into between TTE and Thomson, Thomson purchased, on a rolling basis, up to a maximum outstanding amount of Euro 100 million of the trade receivables of TTE and its relevant subsidiaries. Such outstanding amount should, from the first anniversary of closing of the Combination Agreement on 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. At 31 December 2005, the aggregate outstanding balance due to Thomson amounted to HK$536,364,000.

(h) Pursuant to the Thomson Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and Thomson under which TTE appointed Thomson as one of the only two preferred suppliers for certain components and should give priority to Thomson for the supply of the components, the Group purchased such components from Thomson amounting to HK$2,077,850,000 during the year.

(i) TTE entered into the TCL Trademark License Agreement dated 30 July 2004 with TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20-year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sub-licensable and non-transferable license to use certain of its registered trademarks including "TCL" and "Rowa" for the manufacture and sale of TV products.

No royalties shall be payable by TTE to TCL Corporation prior to the second anniversary of the closing date of the Combination Agreement. During 2005, no payment has been made by the Group as royalties.

(j) Pursuant to the People's Republic of China Sales and Marketing Agency Agreement dated 30 July 2004 entered into between TTE and Sales Co. under which TTE appointed Sales Co. as (i) an exclusive sales and marketing agent to provide a whole range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE sold or designated to be sold in the PRC, and (ii) an exclusive distributor to purchase all TV end-products for resale in the PRC, the Group paid services fees and costs reimbursement of HK$689,234,000 to Sales Co. during the year.

(k) Pursuant to the TCL Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TTE appointed TCL Corporation as one of the only two preferred suppliers for certain components and should give priority to TCL Corporation for the supply of the components, the Group paid to TCL Corporation HK$572,365,000 for purchases of the components.

(l) TTE entered into the Agreement relating to Thomson Television Angers dated 30 July 2004 with Thomson (the "Existing Agreement") under which TTE purchased TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products.

On 1 September 2005, the Existing Agreement was terminated and replaced by the Amended and Restated Agreement (Angers) (the "Amended Angers Agreements") under which Thomson will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services at the Angers Factory. Pursuant to the Amended Angers Agreement, TTE will (i) purchase subcontracting service from Thomson, for not less than a minimum quantity, at an hourly rate effectively consistent with the production cost structure currently in use at TTE's European factory operations which were previously transferred to TTE from Thomson; and (ii) pay to Thomson a total of Euro 20 million over 5 years from 2005 to 2009 to cover reorganization costs of the Angers Factory.

During the year, HK$838,580,000 was paid by the Group to Thomson for the purchases of TV products under the Existing Agreement, and HK$234,285,000 and Euro 6 million were paid by the Group to Thomson for the subcontracting services and the reorganization costs, respectively, under the Amended Angers Agreement.

(m) TTE entered into the Thomson Trademark License Agreement dated 30 July 2004 with Thomson under which Thomson granted to TTE and certain of its subsidiaries for a 20-year term non-sub-licensable and non-transferable license to use certain of its registered trademarks including ''Thomson'', ''RCA", ''Scenium'' and ''LiFE" ("Thomson A Brands") and "SABA" ("Thomson B Brand") for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. No base royalties should be payable by TTE to Thomson prior to the end of the second anniversary of the closing of the Combination Agreement.

The agreement was amended on 1 September 2005, with additional royalties at a rate of 0.4% and 0.2% of the net sales of the TV products for Thomson A Brands and Thomson B Brand, respectively being charged by Thomson to TTE, notwithstanding the waiver of the base royalties mentioned above.

During the year, royalty payment and branding advertising costs reimbursement amounting to HK$20,025,000 and HK$14,476,000, respectively, were made by the Group to Thomson.

CONNECTED TRANSACTIONS *(Continued)*

(n) TTE entered into the North America Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson Inc. (a wholly-owned subsidiary of Thomson) under which TTE appointed Thomson Inc. as an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in the U.S. and Canada, and with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in Mexico. This agreement was terminated on 1 September 2005 after the transfer of the sales and marketing activities in North America from Thomson to TTE.

During the year, HK$226,324,000 was paid by the Group to Thomson as services fees and costs reimbursement.

(o) TTE entered into the Europe, Middle East and Africa Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson under which TTE appointed Thomson as (i) an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in 29 countries in Europe, (ii) as an exclusive sales and marketing agent to provide product services with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in 17 other countries in Europe and Africa, and (iii) as a non-exclusive sales and marketing agent to provide product services with respect to TV end-products in other 24 countries as agreed between the parties.

During the year, HK$645,883,000 was paid by the Group to Thomson as services fees and costs reimbursement.

(p) TTE entered into the North America Service Agreement on 1 September 2005 with Thomson Inc. under which TTE appointed Thomson Inc. as its service provider to provide after-sales, logistics and other services in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designed to be sold in the North America. During the year, HK$16,787,000 was paid by the Group to Thomson for all the cost and expenses incurred by Thomson for provision of the services.

(q) TTE Technology, Inc. (a wholly-owned subsidiary of TTE) entered into the Laboratory Services Agreement on 1 September 2005 with Thomson Inc. under which TTE appointed Thomson Inc. as an independent contractor on a non-exclusive basis, to provide the laboratory services for TV and related products being developed by or for the TTE research and development laboratory located in North America. During the year, HK$1,314,000 was paid by the Group to Thomson as service fee.

(r) TTE entered into the Europe After Sales Services Agreement on 1 September 2005 with Thomson Sales Europe (a wholly owned subsidiary of Thomson) under which TTE appointed Thomson as its exclusive service provider to provide after-sales services with respect to TV and related products of the TTE Group sold or designed to be sold in certain European countries. During the year, no payment was made by the Group to Thomson for providing the services under this agreement.

(s) TTE entered into the Logistics Management Agreement on 1 September 2005 with Thomson Sales Europe under which TTE provided to Thomson logistics management services with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designed to be sold in Europe and some other countries. During the year, HK$965,000 was paid by Thomson to the Group as service fee.

(t) Pursuant to the Thomson Styling Services Agreement dated 30 July 2004 entered into between TTE and Thomson, TTE subcontracted selected styling services (including industrial and other designs of TV products) to Thomson as an exclusive styling service provider in respect of all TV products of TTE and its subsidiaries bearing or marketed under the ''Thomson" or ''RCA'' trademarks. During the year, HK$21,744,000 was paid by the Group to Thomson for the styling services.

On 1 September 2005, the activities under the Thomson Styling Services Agreement were transferred to the TTE Group from Thomson, and on the same date TTE entered into the TTE Styling Services Agreement with Thomson under which Thomson engaged the TTE Group as an independent contractor, on a non-exclusive basis, to provide to the Thomson Group the styling services for and with respect to Thomson's products. During the year, HK$1,608,000 was paid by Thomson to the Group as services fee.

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

On 16 November 2004, the Group entered into a five-year term and revolving loan facilities agreement of US$180 million with banks. Under the provision of the facilities agreement, it is an event of default if TCL Corporation, the Company's ultimate holding company, ceases to own beneficially, directly or indirectly, at least 35% or to be the single largest holder (beneficially and directly or indirectly) of the ordinary voting share capital of the Company, or to maintain the Board and management control of the Company. In the event of default, the lending banks may, among others, demand immediate repayment of all or any of the loans made to the Company under the facilities agreement, together with accrued interest. The obligation has been complied with.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 29 to 45 in this annual report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors and one non-executive director of the Company.

AUDITORS

Ernst & Young retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dong Sheng
Chairman
Hong Kong

27 April 2006

ERNST & YOUNG
安永會計師事務所

To the members
TCL Multimedia Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 59 to 131 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

27 April 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TURNOVER	5	34,556,330	25,599,840
Cost of sales		(28,922,981)	(21,225,303)
Gross profit		5,633,349	4,374,537
Other revenue and gains		252,214	162,203
Selling and distribution costs		(4,289,591)	(2,825,919)
Administrative expenses		(1,241,008)	(874,133)
Research and development costs		(506,402)	(264,403)
Other operating expenses		(183,243)	(83,232)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(334,681)	489,053
Fair value losses of equity investments at fair value through profit or loss/impairment of short term investments		(95,083)	(29,026)
Amortisation of goodwill on acquisition of jointly-controlled entities		–	(57,321)
Finance costs	7	(163,546)	(65,715)
Share of profits and losses of jointly-controlled entities	19	9,212	80,464
PROFIT/(LOSS) BEFORE TAX		(584,098)	417,455
Tax	10	(119,169)	(129,511)
PROFIT/(LOSS) FOR THE YEAR		(703,267)	287,944
Attributable to:			
Equity holders of the parent	11	(598,893)	308,985
Minority interests		(104,374)	(21,041)
		(703,267)	287,944
DIVIDENDS	12		
Interim		–	110,316
Distribution in specie		–	1,351,585
Proposed final		–	110,346
		–	1,572,247
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		HK (18.66) cents	HK 11.29 cents
Diluted		N/A	HK 8.85 cents

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,722,422**	2,389,683
Prepaid land lease payments	15	**62,623**	54,914
Goodwill	16	**206,639**	206,639
Negative goodwill	16	**–**	(548,016)
Other intangible assets	17	**91,993**	26,506
Interests in jointly-controlled entities	19	**157,088**	146,375
Available-for-sale equity investments/long term investments	20	**14,773**	42,301
Long term receivables	21	**358,774**	424,583
Prepaid royalty	22	**563,674**	620,368
Deferred tax assets	35	**27,690**	18,583
Total non-current assets		**4,205,676**	3,381,936
CURRENT ASSETS			
Inventories	23	**4,599,339**	4,565,500
Trade and bills receivables	24	**6,036,973**	5,671,774
Other receivables	26	**1,270,343**	1,322,259
Tax recoverable		**39,089**	11,266
Equity investments at fair value through profit or loss/short term investments	27	**47,594**	116,894
Pledged deposits	28	**90,165**	–
Cash and bank balances	28	**1,861,957**	1,833,272
Total current assets		**13,945,460**	13,520,965
CURRENT LIABILITIES			
Trade and bills payables	29	**6,867,142**	6,649,213
Tax payable		**145,985**	110,838
Other payables and accruals	30	**1,916,671**	1,656,962
Provisions	31	**197,402**	239,877
Interest-bearing bank and other borrowings	32	**3,481,045**	570,119
Due to a shareholder/minority shareholder	33	**536,364**	430,748
Due to the ultimate holding company	25	**717,863**	246,965
Convertible notes	34	**–**	256,000
Total current liabilities		**13,862,472**	10,160,722
NET CURRENT ASSETS		**82,988**	3,360,243
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,288,664**	6,742,179

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,288,664**	6,742,179
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**–**	1,622,134
Due to a shareholder/minority shareholder	33	**–**	603,048
Deferred tax liabilities	35	**24,057**	33,989
Pensions and other post-employment benefits	36	**165,615**	130,050
Total non-current liabilities		**189,672**	2,389,221
Net assets		**4,098,992**	4,352,958
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**390,295**	275,796
Reserves	38	**3,600,221**	2,544,734
Proposed final dividend	12	**–**	110,346
		3,990,516	2,930,876
Minority interests		**108,476**	1,422,082
Total equity		**4,098,992**	4,352,958

LI Dong Sheng
Director

YAN Yong, Vincent
Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Total equity at 1 January		**4,352,958**	4,220,330
HKAS 39 – Recognition of fair value of the Call Option	2.4(b)	**109,876**	–
HKFRS 3 – Derecognition of negative goodwill	2.4(b)	**548,016**	–
Set-off of goodwill arising from the Share Exchange	38	**(520,725)**	–
Issue of shares, including share premium	37	**1,636,984**	160,986
Goodwill realised on disposal of a jointly-controlled entity	38	**–**	1,977
Acquisition of subsidiaries	38	**–**	1,318,760
Incorporation of a non-wholly-owned subsidiary	38	**–**	312
Disposal of a subsidiary	38	**–**	(5,033)
Acquisition of minority interests	38	**(1,159,255)**	–
Equity-settled share option arrangements	38	**28,661**	7,729
Dividends paid to minority shareholders	38	**(21,110)**	(4,070)
Dividends paid to equity holders of the parent	38	**(110,346)**	(1,735,445)
		4,865,059	3,965,546
Total income and expenses recognised directly in equity:			
Exchange differences on translation of the financial statements of foreign entities	38	**(62,800)**	99,468
Net profit/(loss) for the year	38	**(703,267)**	287,944
Total income and expenses for the year		**(766,067)**	387,412
Total equity at 31 December		**4,098,992**	4,352,958
Total income and expenses for the year:			
Attributable to:			
Equity holders of the parent		**(632,826)**	375,378
Minority interests		**(133,241)**	12,034
		(766,067)	387,412

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		(584,098)	417,455
Adjustments for:			
Finance costs	7	163,546	65,715
Share of profits and losses of jointly-controlled entities		(9,212)	(80,464)
Amortisation of goodwill on acquisition of jointly-controlled entities		–	57,321
Depreciation	6	334,290	245,801
Goodwill amortisation	6	–	33,227
Negative goodwill recognised as income	6	–	(49,820)
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments	6	(26,517)	(1,331)
Bank interest income	6	(30,664)	(13,811)
Fair value losses of equity investments at fair value through profit or loss/ impairment of short term investments		95,083	29,026
Impairment of available-for-sale equity investments/ long term investments	6	1,058	13,011
Loss on liquidation of an available-for-sale entity investment	6	4,280	–
Amortisation of other intangible assets	6	4,791	3,155
Amortisation of prepaid land lease payments	6	5,908	2,633
Loss on disposal of a subsidiary	39(c)	–	2,075
Equity-settled share option expense	6	28,661	7,729
Operating profit/(loss) before working capital changes		(12,874)	731,722
Increase in inventories		(59,544)	(400,517)
Increase in trade and bills receivables		(552,872)	(3,119,817)
Decrease/(increase) in other receivables		134,775	(608,932)
Increase in trade and bills payables		371,847	1,596,439
Increase in other payables and accruals		184,508	783,165
Increase/(decrease) in provisions		(33,807)	70,493
Increase in pensions and other post-employment benefits		49,580	7,300
Cash generated from/(used in) operations		81,613	(940,147)
Interest paid		(163,546)	(65,715)
Income taxes paid		(119,191)	(171,040)
Net cash outflow from operating activities		(201,124)	(1,176,902)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash outflow from operating activities		(201,124)	(1,176,902)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(855,584)	(612,282)
Prepayment of land lease payments	15	(37,416)	(4,859)
Purchases of other intangible assets		(1,166)	–
Purchases of available-for-sale equity investments/long term investments		(13,031)	(4,651)
Purchases of equity investments at fair value through profit or loss/short term investments		–	(84,093)
Proceeds from disposal of items of property, plant and equipment, and prepaid land lease payments		227,037	71,203
Proceeds from disposal of equity investments at fair value through profit or loss/short term investments		84,093	–
Decrease/(increase) in pledged deposits		(90,165)	5,199
Acquisition of minority interests	39(a)	(43,800)	–
Acquisition of subsidiaries	39(b)	(11,473)	(159,477)
Disposal of a subsidiary	39(c)	–	(99)
Interest received	6	30,664	13,811
Dividends received from jointly-controlled entities		1,563	124,090
Net cash outflow from investing activities		(709,278)	(651,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		2,171,399	1,968,428
Repayment of bank loans		(1,021,560)	(320,544)
Repayment of convertible notes		(256,000)	–
Proceeds from issue of shares upon exercise of share options	37	804	69,986
Loan from the ultimate holding company		466,367	246,965
Contribution from minority shareholders		–	312
Loan from a shareholder/minority shareholder		367,334	1,033,796
Repayment of loan from a shareholder/minority shareholder		(790,634)	–
Dividends paid		(110,346)	(383,860)
Dividends paid to minority shareholders		(21,110)	(943)
Net cash inflow from financing activities		806,254	2,614,140
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(104,148)	786,080
Cash and cash equivalents at beginning of year		1,833,272	1,069,562
Effect of foreign exchange rate changes, net		(8,634)	(22,370)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,720,490	1,833,272
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	1,861,957	1,833,272
Bank overdrafts	32	(141,467)	–
		1,720,490	1,833,272

BALANCE SHEET

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**3,509,058**	2,385,055
CURRENT ASSETS			
Due from subsidiaries	18	**2,150,804**	2,228,138
Other receivables	26	**14,095**	791
Equity investments at fair value through profit or loss/short term investments	27	**47,594**	32,801
Cash and bank balances	28	**12,396**	214,318
Total current assets		**2,224,889**	2,476,048
CURRENT LIABILITIES			
Due to the immediate holding company	25	**47,039**	–
Tax payable		**5,828**	3,391
Other payables and accruals	30	**51,804**	13,622
Interest-bearing bank and other borrowings	32	**1,538,300**	244,118
Convertible notes	34	**–**	256,000
Total current liabilities		**1,642,971**	517,131
NET CURRENT ASSETS		**581,918**	1,958,917
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,090,976**	4,343,972
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**–**	1,622,134
Net assets		**4,090,976**	2,721,838
EQUITY			
Issued capital	37	**390,295**	275,796
Reserves	38	**3,700,681**	2,335,696
Proposed final dividend	12	**–**	110,346
Total equity		**4,090,976**	2,721,838

Li Dong Sheng
Director

Yan Yong, Vincent
Director

1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited is a limited liability company incorporated in the Cayman Islands.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of colour television sets, and trading of related components
- manufacture and sale of other audio-visual products
- manufacture and sale of computer related products

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong, is the parent company of the Group, and the ultimate holding company of the Group is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

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 certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries acquired are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 27, 31, 33, 37 and 38, HKFRS 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected certain presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement and other disclosures. In addition, in prior periods, the Group's share of tax attributable to jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of jointly-controlled entities is presented net of the Group's share of tax attributable to jointly-controlled entities.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 - Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

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 property, plant and equipment 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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the consolidated balance sheet at 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 - Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at cost with impairment losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$42,301,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at cost with impairment losses being recognised in the income statement.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$116,894,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

(ii) Call Option

Pursuant to the Common Stock Call Option Agreement dated 30 July 2004 (the "Call Option Agreement"), Thomson S.A. ("Thomson") granted to the Company an option to purchase from Thomson 2.5 million shares of common stock of Thomson at an exercise price of Euro18.12 per share (the "Call Option"). The Call Option is exercisable during the period from 1 November 2004 to 31 October 2006.

In prior year, fair value of this Call Option was not recognised. Upon the adoption of HKAS 39, the fair value of this Call Option is recognised prospectively as an asset in the balance sheet with a corresponding adjustment to the opening balance of retained profits at 1 January 2005. The effects of the above changes are summarised in note 2.4 to the financial statements.

(iii) Discounted bills with recourse

In prior years, the Group accounted for bills discounted with recourse as a contingent liability. Upon the adoption of HKAS 39, bills discounted with recourse are no longer derecognised since the derecognition criteria for financial assets are not met. Accordingly, the related bank advances received as consideration for the bills discounted are recognised as a liability prospectively on or after 1 January 2005. The effects of the above changes are summarised in note 2.4 to the financial statements.

2.2 IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

(b) HKAS 32 and HKAS 39 - Financial Instruments *(Continued)*

(iv) Convertible notes

In prior years, convertible notes were stated at amortised cost. Upon the adoption of HKAS 32, convertible notes are split into liability and equity components. The adoption of HKAS 32 has not resulted in any change in the classification of these convertible notes since the interest rate of these convertible notes was higher than the market rate for an equivalent non-convertible note at the time of issuance of these convertible notes and therefore, the convertible notes did not have any equity component.

(c) HKFRS 2 - Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

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.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group has certain employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has resulted in a prior year adjustment to account for the equity-settled transactions retrospectively.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the consolidated balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics (effective for annual periods beginning on or after 1 March 2006)

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 incorporates 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.

The HKAS 39 Amendments shall be applied for annual periods beginning on or after 1 January 2006. In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

Effect of new policies (Increase/(decrease))	HKAS 17# Prepaid land lease payments HK$'000	HKASs 32# and 39* Change in classification of equity investments HK$'000	Effect of adopting HKAS 39* Call Option and bills discounted with recourse HK$'000	HKFRS 2# Equity-settled share option arrangements HK$'000	HKFRS 3* Discontinuation of amortisation of goodwill/ derecognition of negative goodwill HK$'000	Total HK$'000
At 1 January 2005						
Assets						
Property, plant and equipment	(58,721)	–	–	–	–	(58,721)
Prepaid land lease payments	54,914	–	–	–	–	54,914
Negative goodwill	–	–	–	–	548,016	548,016
Available-for-sale equity investments	–	42,301	–	–	–	42,301
Long term investments	–	(42,301)	–	–	–	(42,301)
Trade and bills receivables	–	–	46,396	–	–	46,396
Other receivables	3,807	–	–	–	–	3,807
Equity investments at fair value through profit or loss	–	116,894	109,876	–	–	226,770
Short term investments	–	(116,894)	–	–	–	(116,894)
						704,288
Liabilities/equity						
Interest-bearing bank borrowings	–	–	46,396	–	–	46,396
Share option reserve	–	–	–	14,814	–	14,814
Retained profits	–	–	109,876	(14,814)	548,016	643,078
						704,288
At 31 December 2005						
Assets						
Property, plant and equipment	(68,063)	–	–	–	–	(68,063)
Prepaid land lease payments	62,623	–	–	–	–	62,623
Goodwill	–	–	–	–	33,136	33,136
Negative goodwill	–	–	–	–	21,337	21,337
Available-for-sale equity investments	–	14,773	–	–	–	14,773
Long term investments	–	(14,773)	–	–	–	(14,773)
Trade and bills receivables	–	–	20,082	–	–	20,082
Other receivables	5,440	–	–	–	–	5,440
Equity investments at fair value through profit or loss	–	9,941	37,653	–	–	47,594
Short term investments	–	(9,941)	–	–	–	(9,941)
						112,208
Liabilities/equity						
Interest-bearing bank borrowings	–	–	20,082	–	–	20,082
Share option reserve	–	–	–	43,475	–	43,475
Retained profits	–	–	37,653	(43,475)	54,473	48,651
						112,208

* Adjustment taken effect prospectively from 1 January 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

	Effect of adopting			
	HKAS 39	HKFRS 2	HKFRS 3	
Effect of new policies (Increase/(decrease))	Call Option	Equity-settled share option arrangements	Negative goodwill	Total
	HK$'000	HK$'000	HK$'000	HK$'000
1 January 2004				
Share option reserve	–	7,085	–	7,085
Retained profits	–	(7,085)	–	(7,085)
				–
1 January 2005				
Share option reserve	–	14,814	–	14,814
Retained profits	109,876	(14,814)	548,016	643,078
				657,892

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting HKAS 1 Share of post–tax profits and losses of jointly–controlled entities HK$'000	HKAS 39 Call Option HK$'000	HKFRS 2 Equity-settled share option arrangements HK$'000	HKFRS 3 Discontinuation of amortisation of goodwill and negative goodwill HK$'000	Total HK$'000
Year ended 31 December 2005					
Decrease in other revenue and gains	–	–	–	(5,954)	(5,954)
Increase in administrative expenses	–	–	(28,661)	–	(28,661)
Decrease in other operating expenses	–	–	–	33,136	33,136
Increase in fair value losses of equity investments at fair value through profit or loss	–	(72,223)	–	–	(72,223)
Decrease in share of profits and losses of jointly-controlled entities	(1,130)	–	–	–	(1,130)
Decrease in tax	1,130	–	–	–	1,130
Total decrease/(increase) in loss	–	(72,223)	(28,661)	27,182	(73,702)
Decrease/(increase) in basic loss per share	–	HK(2.25) cents	HK(0.89) cent	HK0.85 cent	HK(2.29) cents
Increase in diluted loss per share	N/A	N/A	N/A	N/A	N/A
Year ended 31 December 2004					
Increase in administrative expenses	–	–	(7,729)	–	(7,729)
Decrease in share of profits and losses of jointly-controlled entities	(14,052)	–	–	–	(14,052)
Decrease in tax	14,052	–	–	–	14,052
Total decrease in profit	–	–	(7,729)	–	(7,729)
Decrease in basic earnings per share	–	–	HK(0.28) cent	–	HK(0.28) cent
Decrease in diluted earnings per share	–	–	HK(0.23) cent	–	HK(0.23) cent

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of cash-generating units (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated capital reserve

Prior to the adoption of Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated income statement.

The excess for the associates and jointly-controlled entities is included in the determination of the Group's share of the associates' and jointly-controlled entities profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets , financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Impairment of assets (Continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% - 4.5%
Leasehold improvements	25% - 50%
Plant and machinery	9% - 20%
Furniture, fixtures and equipment	18% - 25%
Motor vehicles	18% - 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Construction in progress represents buildings under construction and plant and machinery in the process of installation, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction and installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating lease are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

Purchased trademarks with finite lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries and jointly-controlled entities, as long term investments and short term investments.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses.

Short term investments

Short term investments are investments in equity securities and mutual funds held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in unlisted equity securities that are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised 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.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates with the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer or management using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisified, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to the income statement as they become payable in accordance with the rules of the pension schemes.

Certain subsidiaries operate defined benefits pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefits obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimate future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) from the rendering of services, when the services are rendered;

(d) rental income, on a time proportion basis over the lease terms; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) *Derecognition of financial assets - Receivables purchase arrangements*

The Group has entered into certain receivables purchase arrangements with its banks and a factoring company on its trade receivables. The Group has determined that it retains substantially all the risks and rewards of ownership of these trade receivables, either the risks in respect of default payments or the time value of money, which are purchased by the relevant banks and the factoring company. Accordingly, the relevant trade receivables are not derecognised.

(ii) *Trademarks with indefinite useful lives*

The Group has certain trademarks with indefinite useful lives. The Group has determined that the useful lives of such trademarks are indefinite as there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) *Impairment of goodwill and intangible assets with indefinite useful lives*

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill/intangible asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill and intangible assets with indefinite useful lives at 31 December 2005 was HK$206,639,000 (2004: HK$206,639,000) and HK$56,598,000 (2004: Nil), respectively. Further details are given in notes 16 and 17 to the financial statements.

(ii) *Impairment of trade receivables*

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iii) *Warranty provisions*

As further explained in note 31, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

Further information about the assumptions and their risk factors relating to defined benefit retirement obligations, fair value of share options granted and financial instruments are discussed in notes 36, 37 and 45, respectively.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the television segment manufactures colour television sets and trades related components;

(b) the computer segment manufactures personal computers and peripheral products;

(c) the audio-visual segment manufactures audio-visual products; and

(d) the others segment comprises information technology and other businesses.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Television		Computer		Audio-visual		Others		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	29,937,575	21,794,739	2,092,796	1,976,507	1,986,323	1,304,379	539,636	524,215	–	–	34,556,330	25,599,840
Intersegment sales	1,085,755	680,059	5,037	3,834	369,878	945,818	6,952	3,072	(1,467,622)	(1,632,783)	–	–
Total	31,023,330	22,474,798	2,097,833	1,980,341	2,356,201	2,250,197	546,588	527,287	(1,467,622)	(1,632,783)	34,556,330	25,599,840
Segment results	(236,647)	553,012	22,637	36,560	(13,242)	30,948	(18,617)	(33,061)	–	–	(245,869)	587,459
Interest income											30,664	13,811
Corporate expenses											(119,476)	(112,217)
Finance costs											(163,546)	(65,715)
Share of profits and losses of jointly-controlled entities	4,494	5,565	–	–	–	–	4,718	74,899	–	–	9,212	80,464
Amortisation of goodwill on acquisition of jointly-controlled entities	–	–	–	–	–	–	–	(57,321)	–	–	–	(57,321)
Fair value losses of equity investments at fair value through profit or loss/ impairment of short term investments	–	–	–	–	–	–	(95,083)	(29,026)	–	–	(95,083)	(29,026)
Profit/(loss) before tax											(584,098)	417,455
Tax											(119,169)	(129,511)
Profit/(loss) for the year											(703,267)	287,944

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Television 2005 HK$'000	Television 2004 HK$'000	Computer 2005 HK$'000	Computer 2004 HK$'000	Audio-visual 2005 HK$'000	Audio-visual 2004 HK$'000	Others 2005 HK$'000	Others 2004 HK$'000	Eliminations 2005 HK$'000	Eliminations 2004 HK$'000	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000 (Restated)
Assets and liabilities												
Segment assets	15,510,744	14,580,264	999,710	890,047	260,924	221,882	1,603,075	1,201,882	(787,665)	(876,951)	17,586,788	16,017,124
Interests in jointly-controlled entities	106,264	99,616	–	–	–	–	50,824	46,759	–	–	157,088	146,375
Unallocated assets											265,793	739,402
Bank overdrafts included in segment assets	141,467	–	–	–	–	–	–	–	–	–	141,467	–
Total assets											18,151,136	16,902,901
Segment liabilities	11,796,928	13,165,415	461,697	474,269	197,943	211,971	1,060,297	712,472	(3,290,739)	(4,644,072)	10,226,126	9,920,055
Unallocated liabilities											3,684,551	2,629,888
Bank overdrafts included in segment assets											141,467	–
Total liabilities											14,052,144	12,549,943
Other segment information:												
Depreciation and amortisation	316,688	242,028	5,806	27,837	14,064	11,411	8,431	60,861	–	–	344,989	342,137
Impairment and fair value losses recognised in the income statement	–	–	1,058	–	–	–	95,083	42,037	–	–	96,141	42,037
Capital expenditure	801,359	449,287	15,594	5,972	26,397	40,613	12,234	116,410	–	–	855,584	612,282
Negative goodwill recognised as income	–	49,820	–	–	–	–	–	–	–	–	–	49,820

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	PRC 2005 HK$'000	PRC 2004 HK$'000	Europe 2005 HK$'000	Europe 2004 HK$'000	North America 2005 HK$'000	North America 2004 HK$'000	Others 2005 HK$'000	Others 2004 HK$'000	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000 (Restated)
Segment revenue:										
Sales to external customers	13,222,387	12,955,261	7,868,705	4,743,814	6,792,573	3,554,130	6,672,665	4,346,635	34,556,330	25,599,840
Other segment information:										
Segment assets	6,968,457	4,445,771	4,581,140	4,641,581	3,084,515	3,017,366	2,952,676	3,912,406	17,586,788	16,017,124
Capital expenditure	597,261	446,995	89,472	43,700	113,988	67,161	54,863	54,426	855,584	612,282

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Cost of inventories sold	28,910,462	21,160,532
Depreciation (note 14)	334,290	245,801
Research and development costs	521,041	281,311
Less: Government grants released*	(14,639)	(16,908)
Net research and development costs	506,402	264,403
Amortisation of other intangible assets (note 17)**	4,791	3,155
Amortisation of goodwill (note 16)***	–	33,227
Negative goodwill recognised as income (note 16)****	–	(49,820)
Minimum lease payments under operating leases in respect of land and buildings	63,701	72,081
Amortisation of prepaid land lease payments (note 15)	5,908	2,633
Auditors' remuneration	21,802	9,423
Employee benefits expense (including directors' remuneration – note 8):		
Wages and salaries	1,865,072	963,859
Defined contribution expense	84,148	63,906
Defined benefit expense (note 36)	23,879	7,342
Equity-settled share option expense	28,661	7,729
	2,001,760	1,042,836
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments	(26,517)	(1,331)
Loss on disposal of a subsidiary	–	2,075
Loss on liquidation of an available-for-sale equity investment (note 20)	4,280	–
Impairment of available-for-sale equity investments/long term investments	1,058	13,011
Impairment of trade receivables***	120,196	18,890
Foreign exchange differences, net	72,693	(19,569)
Gross rental income	(10,712)	–
Bank interest income	(30,664)	(13,811)
Restructuring costs, net of reimbursement (note 31)	(194)	16,029
Provision for warranties (note 31)	248,112	191,853
Write-down/(reversal of write-down) of inventories to net realisable value	(23,435)	51,516

* Certain government grants have been received for carrying out research activities within the Guangdong Province, the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** The amortisation of other intangible assets is included in "Selling and distribution costs" on the face of the consolidated income statement.

*** The amortisation of goodwill and impairment of trade receivables are included in "Other operating expenses" on the face of the consolidated income statement.

**** The negative goodwill recognised as income is included in "Other revenue and gains" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on:		
Bank loans and overdrafts	108,661	28,723
Other loan wholly repayable within five years	1,940	–
Convertible notes	6,400	7,541
Loan from a shareholder/minority shareholder	24,783	9,083
Loan from the ultimate holding company	21,762	20,368
	163,546	65,715

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Fees	700	300
Other emoluments:		
Salaries, allowances and benefits in kind	3,448	3,072
Discretionary performance related bonuses	900	1,078
Employee share option benefits	3,254	151
Pension scheme contributions	94	29
	7,696	4,330
	8,396	4,630

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

	2005 Fees HK$'000	2005 Employee share option benefits HK$'000	2005 Total HK$'000	2004 Fees HK$'000	2004 Employee share option benefits HK$'000	2004 Total HK$'000
Mr. Tang Guliang	150	51	201	30	–	30
Mr. Wang Bing	150	51	201	30	–	30
Dr. Hon Fong Ming, Perry	150	51	201	120	–	120
	450	153	603	180	–	180

There was no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005						
Executive directors:						
Mr. Li Dong Sheng	–	650	200	853	–	1,703
Ms. Lu Zhong Li	–	390	–	427	–	817
Mr. Hu Qiu Sheng	–	390	231	427	–	1,048
Mr. Zhao Zhong Yao	–	435	274	554	19	1,282
Mr. Yan Yong, Vincent	–	1,073	195	597	56	1,921
Mr. Suen Hay Wai, Felipe	–	510	–	192	19	721
Mr. Alastair Kenneth Ruskin Campbell	50	–	–	–	–	50
Mr. Didier Trutt	50	–	–	–	–	50
	100	3,448	900	3,050	94	7,592
Non-executive director:						
Mr. Albert Thomas da Rosa, Junior	150	–	–	51	–	201
	250	3,448	900	3,101	94	7,793

8. **DIRECTORS' REMUNERATION** *(Continued)*

(b) **Executive directors and a non-executive director:** *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2004						
Executive directors:						
Mr. Li Dong Sheng	–	650	180	–	–	830
Mr. Yuan Xin Cheng	–	120	–	–	–	120
Ms. Lu Zhong Li	–	390	–	–	–	390
Mr. Hu Qiu Sheng	–	390	180	–	–	570
Mr. Zhao Zhong Yao	–	112	142	–	5	259
Mr. Yan Yong, Vincent	–	305	414	24	12	755
Mr. Suen Hay Wai, Felipe	–	1,105	162	127	12	1,406
	–	3,072	1,078	151	29	4,330
Non-executive director:						
Mr. Albert Thomas da Rosa, Junior	120	–	–	–	–	120
	120	3,072	1,078	151	29	4,450

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. **FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees during the year did not include any (2004: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2004: four) non-director, highest paid employees for the year are as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Salaries, allowances and benefits in kind	**10,302**	6,684
Discretionary performance related bonuses	**4,230**	1,164
Employee share option benefits	**–**	127
Pension scheme contributions	**1,501**	36
	16,033	8,011

9. **FIVE HIGHEST PAID EMPLOYEES** *(Continued)*

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2005	2004
HK$1,000,001 to HK$1,500,000	–	2
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	1	–
HK$3,000,001 to HK$3,500,000	4	–
	5	4

10. **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 year. 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.

	2005 HK$'000	2004 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	11,403	29,751
Current – Elsewhere		
Charge for the year	131,279	99,858
Overprovision in prior years	(3,466)	–
Deferred (note 35)	(20,047)	(98)
Total tax charge for the year	119,169	129,511

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory/applicable rates for the countries/locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Profit/(loss) before tax	(584,098)	417,455
Tax at the statutory/applicable tax rates of different countries/locations	(225,978)	81,469
Lower tax rate for specific provinces or local authority	(145,571)	(82,724)
Effect on opening deferred tax of increase in rates	–	(5,928)
Adjustments in respect of current tax of previous periods	(3,466)	–
Profits and losses attributable to jointly-controlled entities	(4,169)	(40,605)
Income not subject to tax	(65,371)	(49,655)
Expenses not deductible for tax	168,838	128,543
Tax losses utilised from previous periods	–	(9,078)
Tax losses not recognised	385,865	109,530
Others	9,021	(2,041)
Tax charge at the Group's effective rate	119,169	129,511

10. TAX *(Continued)*

The share of tax attributable to jointly-controlled entities amounting to HK$1,130,000 (2004: HK$14,052,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

11. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$296,037,000 (2004 (restated): profit of HK$1,763,902,000) (note 38).

12. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Interim - Nil (2004: HK4 cents per share)	–	110,316
Distribution in specie	–	1,351,585
Proposed final - Nil (2004: HK4 cents per share)	–	110,346
	–	1,572,247

The directors do not recommend the payment of any dividend in respect of the year.

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

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

	2005 HK$'000	2004 HK$'000 (Restated)
Earnings/(loss)		
Net profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	(598,893)	308,985
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	6,400	7,541
Adjustment to minority interests upon exercise of the Exchange Option (note 37)	(100,372)	(20,597)
Earnings/(loss) for the purpose of diluted earnings/(loss) per share	(692,865)	295,929

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

	Number of shares 2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**3,210,011,179**	2,736,752,618
Effect of dilution - Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all outstanding share options	**6,240,721**	14,089,054
Assumed deemed conversion of all convertible notes	**105,886,421**	112,381,287
Assumed deemed exercise of the Exchange Option (note 37) outstanding during the year	**692,778,748**	480,378,535
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	**4,014,917,069**	3,343,601,494

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed, as the share options, convertible notes and Exchange Option outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 1 January 2005:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	–	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 1 January 2005, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
Additions	286,716	42,565	107,201	131,603	13,085	274,414	855,584
Disposals	(67,290)	(2,914)	(60,311)	(44,201)	(3,080)	–	(177,796)
Depreciation provided during the year	(65,036)	(13,554)	(167,397)	(71,423)	(16,880)	–	(334,290)
Transfers	149,407	25,730	109,590	23,381	–	(308,108)	–
Exchange realignment	1,302	773	(2,962)	(3,584)	434	(6,722)	(10,759)
At 31 December 2005, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 31 December 2005:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	–	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004							
At 1 January 2004:							
Cost	372,452	93,527	557,145	186,472	47,393	173,342	1,430,331
Accumulated depreciation	(88,648)	(69,200)	(305,244)	(105,635)	(27,522)	–	(596,249)
Net carrying amount	283,804	24,327	251,901	80,837	19,871	173,342	834,082
At 1 January 2004, net of accumulated depreciation	283,804	24,327	251,901	80,837	19,871	173,342	834,082
Additions	20,810	29,255	186,606	69,465	24,329	281,817	612,282
Acquisition of subsidiaries (note 39(b))	564,497	2,560	464,001	82,387	6,804	82,689	1,202,938
Disposal of a subsidiary (note 39(c))	–	–	821	(3,190)	(22)	–	(2,391)
Disposals	(11,699)	(23,840)	(3,129)	(20,120)	(3,289)	–	(62,077)
Depreciation provided during the year	(43,274)	(15,146)	(139,785)	(37,906)	(9,690)	–	(245,801)
Transfers	292,993	3,396	60,925	6,635	46	(363,995)	–
Exchange realignment	24,427	79	15,398	4,806	(11)	5,951	50,650
At 31 December 2004, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 31 December 2004:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	–	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683

An analysis of the Group's land and buildings is as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Elsewhere:		
Freehold	**500,478**	486,891
Short term leases	**94,495**	68,215
Medium term leases	**988,198**	705,995
	1,583,171	1,261,101

At 31 December 2005, certain of the Group's buildings with a net book value of approximately HK$90,090,000 (2004: Nil) were pledged to secure general banking facilities granted to a subsidiary of the Company.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 January:		
As at previously reported	–	–
Effect of adopting HKAS 17 (note 2.2(a))	58,721	34,837
As restated	58,721	34,837
Additions	37,416	4,859
Acquisition of subsidiaries (note 39(b))	–	29,453
Disposals	(22,724)	(7,795)
Amortised during the year	(5,908)	(2,633)
Exchange realignment	558	–
Carrying amount at 31 December	68,063	58,721
Current portion included in other receivables	(5,440)	(3,807)
Non-current portion	62,623	54,914

An analysis of the Group's leasehold land is as follows:

	2005	2004
	HK$'000	HK$'000
		(Restated)
PRC:		
Short term leases	54,431	37,736
Medium term leases	13,632	20,985
	68,063	58,721

16. GOODWILL/NEGATIVE GOODWILL

	Goodwill HK$'000	Negative goodwill HK$'000
31 December 2005		
At 1 January 2005:		
Cost as previously reported	331,357	(598,490)
Effect of adopting HKFRS 3 (note 2.2(d))	(124,718)	598,490
Cost as restated	206,639	–
Accumulated amortisation as previously reported	124,718	(50,474)
Effect of adopting HKFRS 3 (note 2.2(d))	(124,718)	50,474
Accumulated amortisation	–	–
Net carrying amount	206,639	–
Cost and carrying amount at 31 December 2005	206,639	–
31 December 2004		
At 1 January 2004:		
Cost	336,670	(654)
Accumulated amortisation	(92,131)	654
Net carrying amount	244,539	–
Cost at 1 January 2004, net of accumulated amortisation	244,539	–
Acquisition of subsidiaries (note 39(b))	–	(597,836)
Disposal of a subsidiary (note 39(c))	(4,673)	–
Recognised as income/(amortisation provided) during the year	(33,227)	49,820
At 31 December 2004	206,639	(548,016)
At 31 December 2004:		
Cost	331,357	(598,490)
Accumulated amortisation	(124,718)	50,474
Net carrying amount	206,639	(548,016)

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of 10 years.

As further explained in note 2.2(d) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against the consolidated capital reserve. At 31 December 2005, the amount of goodwill remaining in the consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2004: HK$1,819,000), representing its cost.

16. GOODWILL/NEGATIVE GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- PRC television products cash-generating unit; and
- PRC computer products cash-generating unit.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	PRC television products HK$'000	PRC computer products HK$'000	Total HK$'000
Carrying amount of goodwill at 31 December 2005 and 2004	56,500	150,139	206,639

PRC television products cash-generating unit

The recoverable amount of the PRC television products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 8% and cash flows beyond the five-year period are extrapolated using a steady growth rate.

PRC computer products cash-generating unit

The recoverable amount of the PRC computer products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 12% and cash flows beyond the five-year period are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

17. OTHER INTANGIBLE ASSETS

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2005:			
Cost at 1 January 2005, net of accumulated amortisation	–	26,506	26,506
Additions	15,695	57,764	73,459
Amortisation provided during the year	(1,635)	(3,156)	(4,791)
Exchange realignment	–	(3,181)	(3,181)
At 31 December 2005	14,060	77,933	91,993
At 31 December 2005:			
Cost	15,695	87,667	103,362
Accumulated amortisation	(1,635)	(9,734)	(11,369)
Net carrying amount	14,060	77,933	91,993
31 December 2004:			
At 1 January 2004:			
Cost	–	31,707	31,707
Accumulated amortisation	–	(3,963)	(3,963)
Net carrying amount	–	27,744	27,744
Cost at 1 January 2004, net of accumulated amortisation	–	27,744	27,744
Amortisation provided during the year	–	(3,155)	(3,155)
Exchange realignment	–	1,917	1,917
At 31 December 2004	–	26,506	26,506
At 31 December 2004 and 1 January 2005:			
Cost	–	34,201	34,201
Accumulated amortisation	–	(7,695)	(7,695)
Net carrying amount	–	26,506	26,506

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$56,598,000 (2004: Nil) which have indefinite useful lives. These trademarks are treated as having an indefinite useful life because, in the opinion of the directors, there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

The recoverable amounts of these trademarks have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 15% and cash flows beyond the five-year period are extrapolated using a steady growth rate. The projected cash flows are determined by estimated future revenue based on management expectations for market development.

18. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	**3,401,381**	1,704,595
Due from subsidiaries	**2,304,412**	2,913,157
Due to subsidiaries	**(45,931)**	(4,559)
	5,659,862	4,613,193
Less: Portion of amounts due from subsidiaries classified as current assets	**(2,150,804)**	(2,228,138)
	3,509,058	2,385,055

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the balances due from TTE Corporation ("TTE") and its subsidiaries amounting to HK$2,150,804,000 (2004: HK$2,228,138,000) which are unsecured and are repayable on demand, and of which HK$1,675,516,000 (2004: HK$2,228,138,000) bears interest at 0.6% per annum above inter-bank offer rates.

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2005	% of equity attributable to the Company 2004	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL Electrical Appliance Company Limited*	PRC	RMB88,130,825	**100**	67	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$25,452,000	**100**	67	Manufacture of audio-visual products
Renova Electronics Private Limited	India	INR845,164,897	**100**	67	Trading of audio-visual products and components
TTE Corporation @	British Virgin Islands/ Hong Kong	US$10,000	**100**	67	Investment holding
Schneider Electronics GmbH	Germany	EURO2,000,000	**100**	67	Manufacture and sale of audio-visual products

18. **INTERESTS IN SUBSIDIARIES** *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2005	2004	Principal activities
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	**100**	67	Manufacture and sale of audio-visual products
TTE Europe SAS	France	EURO159,394,580	**100**	67	Trading of audio-visual products and components
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000	**100**	67	Manufacture and sale of audio-visual products
TCL Computer Technology Co., Ltd.*	PRC	RMB100,000,000	**100**	100	Manufacture and sale of personal computers and peripheral products
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	**70**	47	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.***	PRC	RMB30,000,000	**51**	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	**100**	67	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	**100**	67	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	**100**	67	Investment holding
TCL India Holdings Pvt. Limited	India	INR100,000	**100**	67	Trading of audio-visual products and components
TCL Information Technology Industrial (Group) Co., Ltd. @	British Virgin Islands/ Hong Kong	US$4,500,000	**100**	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited*	PRC	HK$95,000,000	**100**	67	Manufacture of audio-visual products

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2005	2004	Principal activities
TCL King Electrical Appliances (Huhehaote) Company Limited*	PRC	RMB21,400,000	**100**	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	**100**	67	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited*	PRC	RMB21,400,000	**100**	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	**70**	47	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	**100**	67	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	**100**	67	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	67	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	**100**	67	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	67	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	**100**	67	Trading of audio-visual products and components
TCL Retail (HK) Limited	Hong Kong	HK$10,000	**100**	67	Trading of audio-visual products
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	**100**	100	Manufacture and sale of audio-visual products

18. **INTERESTS IN SUBSIDIARIES** *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2005	2004	Principal activities
TCL- Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	100	67	Trading of audio-visual products and components
TCL- Thomson Electronics Polska S.P. Zo.o	Poland	PLN30,000	100	67	Manufacture of audio-visual products
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US$16,000	100	67	Manufacture of audio-visual products
TTE Germany GmbH	Germany	EURO25,000	100	67	Provision of research and development services
TTE Technology Canada Limited	Canada	CAD816,000	100	67	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$37,594,000	100	67	Trading of audio-visual products and components
TCL Russia LLC	Russia	RUB3,000,000	100	67	Trading of audio-visual products and components
TCL Technology LLC	Russia	RUB10,000	100	–	Trading of audio-visual products and components
TCL Go Video	Cayman Islands/USA	US$1	100	–	Intellectual property holding

@ Direct subsidiaries of the Company

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures under the PRC law

*** Registered as limited liability company under the PRC law

On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004 (the "Exchange Option Agreement"), Thomson exercised the exchange option (the "Exchange Option") to exchange its 33% equity interest in TTE for shares in the Company (the "Share Exchange"). As a result, the Company's equity interests in TTE and its subsidiaries increased. Further details of the Exchange Option and the Share Exchange are included in notes 37 and 44 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**157,088**	146,375

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 24 and 29 to the financial statements, respectively.

Particulars of the jointly-controlled entities, all of which are indirectly held by the Company, are as follows:

				Percentage of		
Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Voting power	Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Corporate	Philippines	49	49	49	Trading of audio-visual products
電大在綫遠程教育技術有限公司 *	Corporate	PRC	50	45	50	Provision of remote education services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005	2004
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**178,406**	147,064
Non-current assets	**46,414**	49,413
Current liabilities	**(65,897)**	(48,000)
Non-current liabilities	**(1,835)**	(2,102)
Net assets	**157,088**	146,375

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

	2005 HK$'000	2004 HK$'000
Share of the jointly-controlled entities' results:		
Turnover	**773,229**	2,853,414
Other revenue	**2,204**	58,917
Total revenue	**775,433**	2,912,331
Total expenses	**(765,091)**	(2,817,815)
Tax	**(1,130)**	(14,052)
Profit after tax	**9,212**	80,464

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2005 HK$'000	2004 HK$'000
Unlisted equity investments, at cost	**15,831**	55,312
Provision for impairment	**(1,058)**	(13,011)
	14,773	42,301

The Group's available-for-sale equity investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) they do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

During the year, one of the Group's unlisted equity investments in the PRC went into liquidation and the Group received assets with an aggregate fair value of HK$30,524,000 as distribution of the remaining assets of that investment. The carrying amount of the liquidated unlisted equity investment at the time of liquidation was HK$34,804,000 and a loss of HK$4,280,000 was recognised in the income statement.

21. LONG TERM RECEIVABLES

		Group	
	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Angers Factory Assets	(a)	**147,154**	168,376
Trademark fee reinvestment	(b)	**81,151**	115,438
Restructuring costs reimbursement receivable from Thomson	31	**54,338**	–
Trade receivables	24	**76,131**	140,769
		358,774	424,583

21. LONG TERM RECEIVABLES *(Continued)*

Notes:

(a) Pursuant to the Agreement relating to Thomson Television Angers dated 30 July 2004, TTE shall purchase certain existing assets and new assets of the Angers Factory owned by Thomson (the "Angers Factory Assets") with an aggregate fair value of Euro 16 million for a nominal consideration of Euro 1 within five years from 30 July 2004. Should the aggregate fair market value of the Angers Factory Assets to be transferred to TTE by Thomson is less than Euro 16 million, Thomson is required to transfer other assets and/or cash to make up the shortfall.

(b)

		Group	
		2005	2004
	Note	**HK$'000**	HK$'000
Total at 31 December		**106,786**	115,438
Less: Portion classified as current assets	26	**(25,635)**	–
Non-current portion		**81,151**	115,438

Pursuant to the Thomson Trademark License Agreement dated 30 July 2004, Thomson is required to reinvest the trademark fee receivable from TTE in respect of sales of certain Thomson-owned brands televisions for the period from the second anniversary until the fifth anniversary (the "Reinvestment Period") after the closing (i.e. 30 July 2004) of the Combination Agreement dated 28 January 2004 (the "Combination Agreement") in general brand awareness advertising costs for such brands for the benefits of TTE. The entire balance represents TTE's prepayment of trademark fee and any actual trademark fee payable to Thomson by TTE during the Reinvestment Period will be deducted from this balance.

22. PREPAID ROYALTY

	Group	
	2005	2004
	HK$'000	HK$'000
Total at 31 December	**603,425**	676,295
Less: Portion classified as current assets (note 26)	**(39,751)**	(55,927)
Non-current portion	**563,674**	620,368

Pursuant to the Patent Royalty Agreement dated 30 July 2004 (the "Patent Royalty Agreement") signed between Thomson Licensing S.A. ("TLSA") (a subsidiary of Thomson) and TTE, a paid-up royalty account with an initial amount of Euro 70 million was established. Any royalties payable under the patent license agreement(s) between TLSA or its affiliates and TTE or its affiliates will be paid out of this paid-up royalty account. After the fourth anniversary of the Patent Royalty Agreement, TTE may elect to apply the remaining balance in the paid-up royalty account to pay any other amounts that may be due to TLSA and its affiliates under certain other operation agreements associated with the Combination Agreement.

23. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**1,495,297**	1,441,926
Work in progress	**319,628**	365,715
Finished goods	**2,784,414**	2,757,859
	4,599,339	4,565,500

24. TRADE AND BILLS RECEIVABLES

	Notes	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Due from third parties:			
Trade receivables		**5,191,517**	4,842,183
Bills receivable		**785,466**	907,848
		5,976,983	5,750,031
Due from related parties:			
The ultimate holding company	25	**30,004**	–
Companies controlled by TCL Corporation	25	**34,707**	19,633
Thomson and companies controlled by Thomson (collectively the "Thomson Group")	25	**41,765**	7,832
Jointly-controlled entities	25	**29,645**	35,047
		136,121	62,512
Total		**6,113,104**	5,812,543
Less: Portion classified as non-current assets	21	**(76,131)**	(140,769)
Current portion		**6,036,973**	5,671,774

The majority of the Group's sales in the 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 year, 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:

	Group 2005 HK$'000	Group 2004 HK$'000
Current to 90 days	**5,593,526**	5,191,272
91 to 180 days	**124,902**	552,555
181 to 365 days	**247,726**	65,602
Over 365 days	**146,950**	3,114
	6,113,104	5,812,543

24. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31 December 2005, the Group's trade receivables of approximately HK$1,110,972,000 (2004: Nil) (the "Factored Receivables") were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognise 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.

Moreover, at 31 December 2005, the Group had discounted trade receivables of approximately HK$20,082,000 to a bank with recourse (the "Discounted Bills"). The Discounted Bills were included in the above balance of trade receivables because the derecognition criteria for financial assets were not met.

Accordingly, the advances from the relevant banks and the factoring company of approximately HK$828,433,000 and HK$302,621,000, respectively, received by the Group as consideration for the Factored Receivables and the Discounted Bills at the balance sheet date were recognised as liabilities and included in "Interest-bearing bank and other borrowings" (note 32).

25. DUE FROM/TO THE ULTIMATE HOLDING COMPANY/THE IMMEDIATE HOLDING COMPANY/COMPANIES CONTROLLED BY TCL CORPORATION/THOMSON GROUP/JOINTLY-CONTROLLED ENTITIES

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount due to the ultimate holding company which bears interest at 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China (2004: 5.022% per annum, being 10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

26. OTHER RECEIVABLES

		Group		Company	
		2005	2004	2005	2004
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
			(Restated)		
Prepayments, deposits and other receivables		1,199,517	1,110,075	14,095	791
Prepaid land lease payments	15	5,440	3,807	–	–
Trademark fee reinvestment	21(b)	25,635	–	–	–
Prepaid royalty	22	39,751	55,927	–	–
Due from Thomson Group	25	–	152,450	–	–
		1,270,343	1,322,259	14,095	791

27. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Equity securities listed in Hong Kong	**9,941**	32,801	9,941	32,801
Mutual funds listed in Europe	**–**	84,093	–	–
Call Option (Note)	**37,653**	–	37,653	–
At 31 December, at market value	**47,594**	116,894	47,594	32,801

The above equity investments at 31 December 2005 were classified as held for trading.

Note: The Call Option was granted by Thomson pursuant to the Call Option Agreement and is exercisable during the period from 1 November 2004 to 31 October 2006 for the purchase of 2.5 million shares of common stock of Thomson from Thomson at an exercise price of Euro 18.12 per share. The fair value of the Call Option at the balance sheet date was estimated by the directors using the binomial model, taking into account the terms and conditions upon which the Call Option was granted.

28. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total cash and bank balances	**1,952,122**	1,833,272	**12,396**	214,318
Less: Time deposits pledged for banking facilities	**(90,165)**	–	**–**	–
Cash and bank balances	**1,861,957**	1,833,272	**12,396**	214,318

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances and the pledged deposits approximates to their fair values.

29. TRADE AND BILLS PAYABLES

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Due to third parties:			
Trade payabes		**5,300,868**	3,938,055
Bills payable		**978,540**	974,717
		6,279,408	4,912,772
Due to related parties:			
Companies controlled by TCL Corporation	25	**226,011**	245,864
Thomson Group	25	**242,159**	1,430,065
Jointly-controlled entities	25	**119,564**	60,512
		587,734	1,736,441
		6,867,142	6,649,213

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

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 90 days	**6,547,730**	6,123,466
91 to 180 days	**77,039**	479,123
181 to 365 days	**197,155**	15,610
Over 365 days	**45,218**	31,014
	6,867,142	6,649,213

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

30. OTHER PAYABLES AND ACCRUALS

The Group's other payables are non-interest-bearing and are expected to be settled within one year.

31. PROVISIONS

Group

	Restructuring costs HK$'000	Warranties HK$'000	Total HK$'000
At 31 December 2004 and 1 January 2005	1,435	238,442	239,877
Arising during the year	164,393	277,749	442,142
Utilised during the year	(112,304)	(334,008)	(446,312)
Reversal of unutilised amounts	–	(29,637)	(29,637)
Exchange realignment	(2,097)	(6,571)	(8,668)
At 31 December 2005	51,427	145,975	197,402

Restructuring costs

A restructuring plan was drawn up in 2004 for certain reorganisation and rationalisation of the Group's business in order to optimise its industrial base and hence profitability. The restructuring is expected to be completed by the end of 2006.

Pursuant to the Restructuring Cost Reimbursement Agreement dated 30 July 2004 (and as supplemented and amended by the Reimbursement Agreement Amendment dated 1 September 2005), Thomson agreed to reimburse TTE up to Euro 38 million (2004: Euro 33 million) of restructuring costs incurred within the first two years of the closing date (i.e. 30 July 2004) of the Combination Agreement in relation to the injection of the Thomson television businesses into TTE, subject to certain adjustment as may be agreed by the parties. The restructuring costs recoverable from Thomson during the year of HK$164,587,000 (2004: HK$35,014,000) were credited directly to restructuring costs in the income statement.

Moreover, according to the relevant agreements, a portion of the reimbursement shall be reimbursed by Thomson six months after 30 July 2006. As such, the relevant portion of the reimbursement was classified as a non-current asset in the balance sheet.

Warranties

The Group provides warranties of three months to one year to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Current						
Bank overdrafts – secured	5.6	2006	83,472	–	–	–
Bank overdrafts – unsecured	LIBOR/EURIBOR+0.6	2006	57,995	–	–	–
Bank loans – secured	4.5	2006	19,382	–	–	–
Bank loans – unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300	244,118	1,538,300	244,118
Bank loans – unsecured	3.1 to 5.6	2006	328,625	120,259	–	–
Advances from banks as consideration for Factored Receivables and Discounted Bills	LIBOR+(0.3 to 0.5)	2006	828,433	–	–	–
Advances from a factoring company as consideration for Factored Receivables	EURIBOR+0.5	2006	302,621	–	–	–
Trust receipt loans – secured	HIBOR/SIBOR/ LIBOR+(0.4 to 1.7)	2006	48,706	–	–	–
Trust receipt loans – unsecured	HIBOR+(0.5 to 1.5)	2006	273,511	205,742	–	–
			3,481,045	570,119	1,538,300	244,118
Non-current						
Bank loans - unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	2007 to 2009	–	1,622,134	–	1,622,134
			3,481,045	2,192,253	1,538,300	1,866,252

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Analysed into:				
Bank loans and overdrafts repayable:				
Within one year or on demand	3,178,424	570,119	1,538,300	244,118
In the second year	–	94,118	–	94,118
In the third to fifth years, inclusive	–	1,528,016	–	1,528,016
	3,178,424	2,192,253	1,538,300	1,866,252
Other borrowings repayable within one year	302,621	–	–	–
	3,481,045	2,192,253	1,538,300	1,866,252

32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The Group's overdraft facilities amounting to HK$175,443,000 (2004: Nil), of which HK$141,467,000 (2004: Nil) had been utilised as at the balance sheet date, are secured by the pledged of certain of the Group's time deposits and property, plant and equipment amounting to HK$59,911,000 (2004: Nil) and HK$90,090,000 (2004: Nil), respectively.

(b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to HK$30,254,000 (2004: Nil).

(c) As at 31 December 2005, the carrying amounts of the Group's and the Company's bank and other borrowings approximated to their fair values.

(d) Except for the secured bank loans and overdrafts with a carrying amount of HK$19,382,000 (2004: Nil) and HK$83,472,000 (2004: Nil), respectively, and the unsecured bank loans of HK$328,625,000 (2004: HK$120,259,000), all other borrowings of the Group bear interest at floating rates.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's bank loans up to HK$91,267,000 (2004: Nil) as at the balance sheet date.

Included in bank loans are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**1,606,655**	1,050,420	**837,335**	847,222
Euro	**574,718**	586,676	**512,730**	586,676
Japanese Yen	**561**	2,544	**–**	–

Breach of loan covenants

As at 31 December 2005, in respect of certain bank loans with an aggregate carrying amount of HK$1,538,300,000, the Group breached certain of the terms of the bank loans, which are primarily related to the value of the Group's consolidated tangible net worth and the Group's interest cover ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with the relevant banks. As at 31 December 2005, those negotiations had not been concluded.

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 31 December 2005.

On 31 March 2006, the Group successfully obtained the required consent from the majority of the lenders for the Group's waiver request.

33. DUE TO A SHAREHOLDER/MINORITY SHAREHOLDER

The loan is due to Thomson, bears interest at rates ranging from 2.36% to 4.26% (2004: 2.36%) per annum (being the cost of fund of Thomson). The entire loan was secured by the Group's trade receivables with a carrying value of HK$536,364,000 (2004: HK$1,033,796,000) as at 31 December 2005. 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.

After the Share Exchange transaction on 10 August 2005, Thomson became a shareholder of the Company.

34. CONVERTIBLE NOTES

	Group and Company	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**256,000**	347,000
Redeemed during the year	**(256,000)**	(91,000)
At 31 December 2005	**–**	256,000

On 8 November 2005, the outstanding principal amount of the convertible notes amounting to HK$256,000,000, plus accrued interest, was redeemed by the Company.

The principal terms of the convertible notes are as follows:

Issue price
The aggregate principal amount of the convertible notes was HK$350,000,000, issued at par on 8 November 2002.

Term and maturity date
Unless previously redeemed, converted or purchased and cancelled, the convertible notes would be redeemed in Hong Kong dollars at 100% of their principal amounts, plus accrued interest on 8 November 2005.

Interest
The convertible notes bear interest at the rate of 3% per annum, which are payable semi-annually in arrears.

Conversion period
The conversion period commenced on 8 November 2002 and ended on 8 November 2005.

Conversion rights
The noteholders have the right at any time during the conversion period to convert the convertible notes in whole or in part of the principal amount of not less than HK$10,000 into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment). In 2004, the conversion price of the convertible notes was adjusted from HK$2.556 per share to HK$2.06 per share as a result of the distribution in specie by the Company.

Redemption at the option of the Company
The Company has an option to redeem, in whole or in part, the convertible notes (being HK$10,000 in principal amount or an integral multiple thereof) at 100% of their principal amount plus interest accrued to but excluding the date of redemption, after 18 months from 8 November 2002 if the closing price of the Company's shares on the Stock Exchange for at least 20 dealing days in a period of 30 consecutive dealing dates on the Stock Exchange is at least 130% of the conversion price in effect on such dealing day.

35. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2004		1,416	431	1,847
Acquisition of subsidiaries	39(b)	29,305	–	29,305
Deferred tax charged/(credited) to the income statement during the year	10	3,268	(431)	2,837
Gross deferred tax liabilities at 31 December 2004 and 1 January 2005		33,989	–	33,989
Deferred tax credited to the income statement during the year	10	(9,769)	–	(9,769)
Exchange realignment		(163)	–	(163)
Gross deferred tax liabilities at 31 December 2005		**24,057**	**–**	**24,057**

Deferred tax assets

Group

	Notes	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Pension provisions HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2004		4,625	4,230	–	–	8,855
Acquisition of subsidiaries	39(b)	–	–	6,003	–	6,003
Deferred tax credited to the income statement during the year	10	675	947	1,313	–	2,935
Exchange realignment		–	–	790	–	790
Gross deferred tax assets at 31 December 2004 and 1 January 2005		5,300	5,177	8,106	–	18,583
Deferred tax credited to the income statement during the year	10	2,000	6,515	981	782	10,278
Exchange realignment		–	(102)	(1,037)	(32)	(1,171)
Gross deferred tax assets at 31 December 2005		**7,300**	**11,590**	**8,050**	**750**	**27,690**

35. **DEFERRED TAX** *(Continued)*

The Group has tax losses of HK$1,687,303,000 (2004: HK$676,607,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

36. **PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS**

The Group has defined benefits plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the amounts recognised in the consolidated balance sheet for the plans.

	2005 HK$'000	2004 HK$'000
Net benefit expense		
Current service cost	21,469	4,421
Interest cost on benefit obligation	5,899	2,921
Net cumulative actuarial gain recognised in the income statement	(3,489)	–
Net benefit expense	23,879	7,342
Benefit liabilities		
Benefit obligation	167,088	141,043
Unrecognised net actuarial losses	(1,473)	(10,993)
Benefit liabilities	165,615	130,050
Movements in the benefit liabilities during the year are as follows:		
At 1 January	130,050	–
Acquisition of subsidiaries (note 39(b))	29,992	122,046
Benefit expense (note 6)	23,879	7,342
Contributions	(3,731)	(42)
Exchange realignment	(14,575)	704
At 31 December	165,615	130,050

The principal assumptions used in determining pensions and post-employment benefits obligations for the Group's major plans are shown below:

	2005 %	2004 %
Discount rate	2.5 - 4.0	4.0 - 5.5
Future salary increases	2.0 - 5.0	1.0 - 7.0
Future pension increases	1.0	1.3 - 3.5
Healthcare cost increase rate	5.0 - 9.5	5.0 - 9.5

37. SHARE CAPITAL

Shares

	Company 2005 HK$'000	Company 2004 HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
3,902,951,727 (2004: 2,757,960,632) shares of HK$0.10 each	**390,295**	275,796

During the year, the movements in share capital (including share premium) were as follows:

(a) The subscription rights attaching to 809,000 share options were exercised, resulting in the issue of 809,000 shares of HK$0.10 each for a total cash consideration of HK$804,000.

(b) On 10 August 2005, pursuant to the Exchange Option Agreement, Thomson exercised the Exchange Option to exchange its 33% equity interest in TTE for shares in the Company (the "Share Exchange"). As a result, a total of 1,144,182,095 shares of HK$0.10 each were issued to Thomson at a market price of HK$1.43 per share on 10 August 2005. Further details of the Share Exchange are set out in note 44 to the financial statements.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2004	2,681,328,559	268,133	1,273,754	1,541,887
Share options exercised	41,029,577	4,103	65,883	69,986
Conversion of convertible notes	35,602,496	3,560	87,440	91,000
Distribution in specie	–	–	(1,389,347)	(1,389,347)
At 31 December 2004 and 1 January 2005	2,757,960,632	275,796	37,730	313,526
Share options exercised	809,000	81	723	804
Exchange Option exercised	1,144,182,095	114,418	1,521,762	1,636,180
At 31 December 2005	**3,902,951,727**	**390,295**	**1,560,215**	**1,950,510**

Exchange Option

Pursuant to the Exchange Option Agreement, the Company granted the Exchange Option to Thomson to exchange all of Thomson's 33% equity interest in TTE for 1,149,140,810 new shares to be issued by the Company, subject to adjustments. The Exchange Option is exercisable from 27 September 2004 to 16 July 2005, subject to certain extensions.

Thomson confirmed to exercise the Exchange Option on 13 July 2005 and completion of the exercise took place on 10 August 2005. Further details of the Exchange Option were set out in note 44 to the financial statements.

37. SHARE CAPITAL *(Continued)*

Share options

On 12 May 2003, the share option scheme adopted by the Company on 30 August 2001 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company, subject to adjustments. As a result, the Company can no longer grant any further options under the Old Scheme. However, all options granted prior to the termination of the Old Scheme will remain in full force and effect. Unless otherwise terminated or amended, the New Scheme will remain in force for three and a half years from the date of adoption.

The purpose of the New Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The eligible participants of the New Scheme include any Employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the board of directors at its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted under the New Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the New Scheme and any other scheme).

The maximum number of shares in respect of which options may be granted to any one participant in a 12-month period shall not exceed 1% (0.1% for connected persons) of the issued share capital of the Company. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than three and a half years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of the offer; (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

At 31 December 2005, the number of shares issuable under share options granted under the schemes was 183,342,861, which represented approximately 4.7% of the Company's shares in issue as at that date.

37. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

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

Name or category of participant	Number of share options: At 1 January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2005	Date of grant ∆	Exercise price HK$	Exercise period	Price of Company's shares at date of grant # HK$	Price of Company's shares immediately before the exercise date* HK$	Price of Company's shares at exercise date* HK$
Directors												
Executive directors												
Li Dong Sheng	–	–	5,000,000	–	–	5,000,000	31 May 2005	1.400	Note 4	1.410	–	–
Lu Zhong Li	–	–	2,500,000	–	–	2,500,000	31 May 2005	1.400	Note 4	1.410	–	–
Hu Qiu Sheng	–	–	2,500,000	–	–	2,500,000	31 May 2005	1.400	Note 4	1.410	–	–
Yan Yong, Vincent	68,000	–	–	–	–	68,000	30 January 2003	2.114	Note 3	2.075	–	–
	–	–	3,450,000	–	–	3,450,000	31 May 2005	1.400	Note 4	1.410	–	–
	68,000	–	3,450,000	–	–	3,518,000						
Suen Hay Wai, Felipe	234,000	(234,000)	–	–	–	–	30 January 2003	2.114	Note 3	2.075	–	–
	–	(950,000)	950,000	–	–	–	31 May 2005	1.400	Note 4	1.410	–	–
	234,000	(1,184,000)	950,000	–	–	–						
Zhao Zhong Yao	68,000	–	–	–	–	68,000	30 January 2003	2.114	Note 3	2.075	–	–
	–	–	3,200,000	–	–	3,200,000	31 May 2005	1.400	Note 4	1.410	–	–
	68,000	–	3,200,000	–	–	3,268,000						
	370,000	(1,184,000)	17,600,000	–	–	16,786,000						

37. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

The following share options were outstanding under the share option schemes during the year (continued):

Name or category of participant	Number of share options: At 1 January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2005	Date of grant ^Δ	Exercise price HK$	Exercise period	Price of Company's shares at date of grant # HK$	Price of Company's shares immediately before the exercise date* HK$	Price of Company's shares at exercise date* HK$
Non-executive directors												
Albert Thomas da Rosa, Junior	–	–	300,000	–	–	300,000	31 May 2005	1.400	Note 4	1.410	–	–
Tang Guliang	–	–	300,000	–	–	300,000	31 May 2005	1.400	Note 4	1.410	–	–
Wang Bing	–	–	300,000	–	–	300,000	31 May 2005	1.400	Note 4	1.410	–	–
Hon Fong Ming, Perry	–	–	300,000	–	–	300,000	31 May 2005	1.400	Note 4	1.410	–	–
	–	–	1,200,000	–	–	1,200,000						
Other employees												
	1,894,000	–	–	(809,000)	(1,085,000)	–	29 October 2001	0.994	Note 1	0.990	1.886	1.886
	10,000,000	–	–	–	–	10,000,000	4 November 2002	2.305	Note 2	2.175	–	–
	20,052,861	234,000	–	–	–	20,286,861	30 January 2003	2.114	Note 3	2.075	–	–
	–	950,000	134,120,000	–	–	135,070,000	31 May 2005	1.400	Note 4	1.410	–	–
	31,946,861	1,184,000	134,120,000	(809,000)	(1,085,000)	165,356,861						
	32,316,861	–	152,920,000	(809,000)	(1,085,000)	183,342,861						

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

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

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

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

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

* The price of the Company's shares disclosed immediately before the exercise date and as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices immediately before the exercise dates and as at the dates on which the option were exercised over all of the exercises of options within the disclosure category.

Δ The vesting period of the share options is from the date of grant until the commencement of the exercise period.

37. **SHARE CAPITAL** *(Continued)*

Share options *(Continued)*

The fair value of the share options granted during the year was HK$57,081,000. The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005.

Dividend yield (%)	3.00 per annum
Expected volatility (%)	40.00 per annum
Historical volatility (%)	50.00 per annum
Risk-free interest rate (%)	3.16 per annum
Expected life of option (year)	3.50
Weighted average share price (HK$)	1.50

The expected life of the options is based on the historical data over the past four years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

38. RESERVES

	Attributable to equity holders of the parent								
Group	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004									
As previously reported	1,273,754	–	66,204	492,205	39,550	1,708,405	3,580,118	100,079	3,680,197
Prior year adjustments	–	7,085	–	–	–	(7,085)	–	–	–
Issue of shares upon exercise of share options (note 37)	65,883	–	–	–	–	–	65,883	–	65,883
Issue of shares upon conversion of convertible notes (note 37)	87,440	–	–	–	–	–	87,440	–	87,440
Goodwill realised on disposal of a jointly–controlled entity	–	–	1,977	–	–	–	1,977	–	1,977
Exchange realignment	–	–	–	–	66,393	–	66,393	33,075	99,468
Realised on disposal	–	–	–	(198)	–	198	–	–	–
Net profit/(loss) for the year (as restated)	–	–	–	–	–	308,985	308,985	(21,041)	287,944
Acquisition of subsidiaries	–	–	–	–	–	–	–	1,318,760	1,318,760
Incorporation of a non-wholly owned subsidiary	–	–	–	–	–	–	–	312	312
Disposal of a subsidiary	–	–	–	–	–	–	–	(5,033)	(5,033)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(4,070)	(4,070)
Equity-settled share option arrangements	–	7,729	–	–	–	–	7,729	–	7,729
Final 2003 dividend	–	–	–	–	–	(1,544)	(1,544)	–	(1,544)
Interim 2004 dividend	–	–	–	–	–	(110,316)	(110,316)	–	(110,316)
Distribution in specie	(1,389,347)	–	(9,082)	(69,683)	(6,544)	123,071	(1,351,585)	–	(1,351,585)
Proposed final 2004 dividend (note 12)	–	–	–	–	–	(110,346)	(110,346)	–	(110,346)
Transfer from retained profits	–	–	–	65,388	–	(65,388)	–	–	–
At 31 December 2004	37,730	14,814	59,099	487,712	99,399	1,845,980	2,544,734	1,422,082	3,966,816

38. **RESERVES** *(Continued)*

Group	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
	Attributable to equity holders of the parent								
At 1 January 2005									
As previously reported	37,730	–	59,099	487,712	99,399	1,860,794	2,544,734	1,422,082	3,966,816
Prior year adjustments	–	14,814	–	–	–	(14,814)	–	–	–
Opening adjustments	–	–	–	–	–	657,892	657,892	–	657,892
Set-off of goodwill arising from the Share Exchange (note 39(a))	–	–	–	–	–	(520,725)	(520,725)	–	(520,725)
Issue of shares upon exercise of share options (note 37)	723	–	–	–	–	–	723	–	723
Issue of shares upon exercise of the Exchange Option (note 37)	1,521,762	–	–	–	–	–	1,521,762	–	1,521,762
Exchange realignment	–	–	–	–	(33,933)	–	(33,933)	(28,867)	(62,800)
Net loss for the year	–	–	–	–	–	(598,893)	(598,893)	(104,374)	(703,267)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(21,110)	(21,110)
Acquisition of minority interests (note 39(a))	–	–	–	–	–	–	–	(1,159,255)	(1,159,255)
Equity-settled share option arrangements	–	28,661	–	–	–	–	28,661	–	28,661
Transfer from retained profits	–	–	–	81,074	–	(81,074)	–	–	–
At 31 December 2005	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697

* Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries and jointly-controlled entities in the PRC has been transferred to the reserve funds which are restricted as to use. In addition, profits of certain jointly-controlled entities which have been capitalised are also transferred to the reserve funds.

^ The Group's capital reserve originally represented the difference between the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of a subsidiary remaining eliminated against the capital reserve is explained in note 16 to the financial statements.

38. RESERVES *(Continued)*

Company	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve# HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2004:					
As previously reported	1,273,754	–	903,105	9,605	2,186,464
Prior year adjustment	–	7,085	–	(7,085)	–
Issue of shares upon exercise of share options (note 37)	65,883	–	–	–	65,883
Issue of shares upon conversion of convertible notes (note 37)	87,440	–	–	–	87,440
Equity-settled share option arrangements	–	7,729	–	–	7,729
Net profit for the year (as restated)	–	–	–	1,763,902	1,763,902
Final 2003 dividend	–	–	–	(1,544)	(1,544)
Interim 2004 dividend	–	–	–	(110,316)	(110,316)
Distribution in specie	(1,389,347)	–	(164,169)	–	(1,553,516)
Proposed final 2004 dividend (note 12)	–	–	–	(110,346)	(110,346)
At 31 December 2004	37,730	14,814	738,936	1,544,216	2,335,696
At 1 January 2005:					
As previously reported	37,730	–	738,936	1,559,030	2,335,696
Prior year adjustments	–	14,814	–	(14,814)	–
Opening adjustments	–	–	–	109,876	109,876
Issue of shares upon exercise of share options (note 37)	723	–	–	–	723
Issue of shares upon the exercise of the Exchange Option (note 37)	1,521,762	–	–	–	1,521,762
Equity-settled share option arrangements	–	28,661	–	–	28,661
Net loss for the year	–	–	–	(296,037)	(296,037)
At 31 December 2005	**1,560,215**	**43,475**	**738,936**	**1,358,055**	**3,700,681**

The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

39. BUSINESS COMBINATION

(a) Acquisition of minority interests

The Share Exchange took place on 10 August 2005 and represented an acquisition of minority interests in TTE by the Company from Thomson. Further details of this transaction are included in note 44 to the financial statements.

The carrying amounts of the 33% equity interest in TTE immediately before the Share Exchange and the fair value of the shares of the Company issued on 10 August 2005 were as follows:

	HK$'000
Carrying amount of 33% equity interest in TTE	1,159,255
Goodwill arising from the Share Exchange	520,725
	1,679,980
Satisfied by:	
Issue of shares of the Company at fair value (note 37)	1,636,180
Cash	43,800
	1,679,980

The goodwill arising from the Share Exchange was set off against the negative goodwill (HK$548,016,000 as at 1 January 2005) arising from the Combination Agreement in 2004 because, in the opinion of the directors, the Share Exchange was part of the Combination Agreement and was interrelated and indivisible with the business combination associated with the Combination Agreement in 2004. Since the negative goodwill has been eliminated against the opening balance of retained profits at 1 January 2005 upon the adoption of HKFRS 3, the set-off of this goodwill was accounted for as a reserve movement for the year.

39. BUSINESS COMBINATION *(Continued)*

(b) Acquisition of subsidiaries

During the year, the Group acquired the entire equity interest of certain subsidiaries from Thomson. The subsidiaries acquired are engaged in product sales, marketing and management, the design and styling activities related to television products. Further details of these acquisitions are included in note 44 to the financial statements.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the date of acquisition approximated their corresponding carrying amounts immediately before the acquisition and were as follows:

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net assets acquired:			
Property, plant and equipment	14	–	1,202,938
Prepaid land lease payments	15	–	29,453
Long term investments		–	1,164
Long term receivables		–	258,775
Deferred tax assets	35	–	6,003
Cash and bank balances		–	140,910
Inventories		–	1,724,038
Trade and bills receivables		83,539	752,139
Prepayments, deposits and other receivables		52,131	932,174
Trade and bills payables		(77,162)	(898,502)
Tax payable		–	(87,833)
Other payables and accruals		(17,043)	(189,164)
Due to related companies, net		–	(1,187,855)
Provisions		–	(166,876)
Bank borrowings		–	(149,030)
Deferred tax liabilities	35	–	(29,305)
Pensions and other post-employment benefits	36	(29,992)	(122,046)
Minority interests		–	(688,372)
		11,473	1,528,611
Negative goodwill on acquisition	16	–	(597,836)
		11,473	930,775
Satisfied by:			
Cash		11,473	213,785
33% interests in the Group's television business		–	630,388
Costs associated with the acquisition		–	86,602
		11,473	930,775

39. BUSINESS COMBINATION *(Continued)*

(b) Acquisition of subsidiaries *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2005 HK$'000	2004 HK$'000
Cash paid	**(11,473)**	(300,387)
Cash and bank balances acquired	–	140,910
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(11,473)**	(159,477)

The results of the subsidiaries acquired during the year had no significant impact on the Group's consolidated turnover or loss after tax for the current year.

(c) Disposal of a subsidiary

	Note	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment		–	2,391
Goodwill		–	4,673
Inventories		–	555
Cash and bank balances		–	2,958
Trade and bills receivables		–	551
Prepayments, deposits and other receivables		–	3,129
Trade and bills payables		–	(243)
Other payables and accruals		–	(2,729)
Short term bank loan		–	(943)
Tax payable		–	(374)
Minority interests		–	(5,034)
		–	4,934
Loss on disposal	6	–	(2,075)
Satisfied by cash		–	2,859

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration received	–	2,859
Cash and bank balances disposed of	–	(2,958)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(99)

The results of the subsidiary disposed of in the year ended 31 December 2004 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its office properties and factories under operating lease arrangements with lease negotiated for terms ranging from two to five years.

At 31 December 2005, the Group had total minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**4,314**	–
In the second to fifth years, inclusive	**12,171**	–
	16,485	–

(b) As lessee

The Group leases certain of its office properties and factories under operating lease arrangements. These leases are negotiated for terms ranging from two to six years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	39,944	25,415
In the second to fifth years, inclusive	77,679	17,192
After five years	16,851	222
	134,474	42,829

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for	10,389	134,639

In addition, the Group's share of jointly-controlled entities' own capital commitments at the balance sheet date, which were not included in the above, was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for	–	88

42. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills discounted with recourse	**–**	46,396	**–**	–
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**2,927,750**	1,265,712
Guarantee given to a supplier in connection with the payment of purchases by a subsidiary	**–**	–	**73,654**	–
Guarantees given in lien of utility and rental deposits	**4,446**	3,525	**–**	–
	4,446	49,921	**3,001,404**	1,265,712

As at 31 December 2005, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$1,334 million (2004: HK$545 million), and the guarantee given to a supplier in connection with the payment of purchases by a subsidiary was utilised to the extent of approximately HK$24 million (2004: Nil).

43. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts and amount due to a shareholder/minority shareholder, which are secured by the assets of the Group, are included in notes 14, 32 and 33 to the financial statements.

44. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2005 HK$'000	2004 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	1,186,725	1,400,358
Sales of finished goods	(ii)	97,642	78,592
Purchases of finished goods	(iii)	1,280,408	1,497,427
Ultimate holding company:			
Interest expense	(iv)	21,762	20,368
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	4,654	29,151
Purchases of raw materials	(iii)	608,839	581,500
Purchases of finished goods	(iii)	108,217	41,501
Sales handling fee income	(v)	–	858
Subcontracting fee expense	(vi)	13,066	16,926
Thomson Group:			
Sales of finished goods	(ii)	293,538	351,743
Purchases of raw materials	(iii)	2,077,850	1,738,305
Purchases of finished goods	(vii)	838,580	1,024,748
Agency fee and cost reimbursement expense	(viii)	872,207	454,977
Styling service fee expense	(viii)	21,744	18,980
Shared service fee expense	(viii)	241,687	129,336
Interest expense	(ix)	24,783	9,083
Patent royalty expense	(x)	30,991	18,670
Reimbursement of brand advertising costs	(xi)	14,476	11,973
Trademark royalty fee	(xii)	20,025	–
Strategic sourcing fee expense	(xiii)	27,000	11,848
After-sales and related services fee expense	(viii)	16,787	–
Laboratory service fee expense	(viii)	1,314	–
Reimbursement of reorganisation costs	(xiv)	57,903	–
Subcontracting fee expense	(xv)	234,285	–
Styling service fee income	(xvi)	1,608	–
Logistics management service fee income	(xvi)	965	–

Notes:

(i) The sales of raw materials were made at a gross margin of 0-1%.

(ii) The sales of finished goods were made by reference to the prevailing market price for comparable transactions.

(iii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.

(iv) The interest was charged at 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China (2004: 5.022% per annum, being 10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

(v) The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.

(vi) The subcontracting fee was determined by reference to subcontracting fees charged by third party companies offering similar services.

(vii) The purchases of finished goods were made at terms such that the Group shall incur no loss and realise no profit from the arrangement.

44. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: *(Continued)*

(viii) The agency fee, cost reimbursement expense, styling service fee, shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(ix) The interest was charged at rates ranging from 2.36% to 4.26% (2004: 2.36%) per annum, being the cost of fund of Thomson.

(x) The patent royalty was charged at rate ranges that are consistent with the rates offered by Thomson Group to other television manufacturers and varied according to the country in which the colour television receivers are manufactured.

(xi) The brand advertising costs represent advertising costs incurred by Thomson Group and were reimbursed by the Group at cost and at a minimum of 0.5% of the aggregate net sales of TV products using Thomson A brand as defined in the Thomson Trademark License Agreement.

(xii) No royalty fee was charged by Thomson Group for the period from 1 January 2005 to 20 July 2005. From 21 July 2005 onwards, the trademark royalty fee was charged by Thomson Group at 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively, as defined in the Amendment to Thomson Trademark License Agreement dated 1 September 2005.

(xiii) The strategic sourcing fee expense was charged at an annual fee of Euro 2.85 million (approximately HK$27 million) by Thomson Group, subject to adjustments.

(xiv) The reimbursement of reorganisation costs represents payment by the Group to Thomson to cover the reorganisation costs incurred by Thomson in connection with having an operation mode of Angers Factory acceptable to the Group according to the Amended and Restated Agreement (Angers) dated 1 September 2005. The Group is required to pay a total amount of Euro 20 million (equivalent to approximately HK$184 million) over a period of five years, ranging from Euro 6 million (equivalent to approximately HK$58 million) in 2005 to Euro 2 million (equivalent to approximately HK$18 million) in 2009.

(xv) The subcontracting fee charged by Thomson Group was calculated based on the production cost structure in use at other European factory operations of the Group.

(xvi) The styling service fee and logistics management service fee were charged by the Group at cost.

(b) Other transactions with related parties:

(i) On 21 April 2005, the Company, TTE and Thomson entered into two binding memoranda of understanding (the "MOUs") in respect of (i) the sales and marketing activities of the Group's products in the United States, Canada and Europe and (ii) the operation of the Angers Factory located in France. The MOUs provide that the parties will enter into a number of definitive agreements to implement the principles contained in the MOUs. Further details of the MOUs were set out in the Company's announcement dated 21 April 2005.

(ii) On 4 July 2005, the Company and TCL International Electronics (BVI) Limited ("TCLIE"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with TCL Corporation for the acquisition of the remaining 49% equity interest in TCL Electrical Appliance Sales Co., Ltd. (the "Sales Company") owned by TCL Corporation at a consideration of Euro 6.5 million (equivalent to approximately HK$60 million). This acquisition is expected to be completed by May 2006 and the Sales Company will then become a wholly-owned subsidiary of the Group. Further details of this acquisition were set out in the Company's announcement dated 5 July 2005.

(iii) On 12 July 2005, the Group and Thomson entered into the North America Transfer Agreement and the European Master Transfer Agreement (collectively the "Transfer Agreements") for the transfer of the sales and marketing activities in Europe and North America, respectively, from Thomson to TTE. The closing of the Transfer Agreements gave rise to the termination or modifications of certain agreements (the "Related Agreements") entered into between the Group and Thomson when TTE was established in 2004. Further details of the Transfer Agreements and the Related Agreements were set out in the announcement and the circular of the Company dated 12 July 2005 and 2 August 2005, respectively.

On 1 September 2005, the Group and Thomson further entered into the Transfer Closing Agreement to modify certain terms of the Transfer Agreements. Further details of the Transfer Closing Agreement were set out in the Company's announcement dated 2 September 2005.

44. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties: *(Continued)*

(iv) On 26 July 2005, the Company entered into a sale and purchase agreement with Opta Systems, LLC, a 51%-owned subsidiary of TCL Corporation, to purchase certain intellectual property rights including trademarks, service marks, patents applications and copyrights at an initial consideration of US$10 million, subject to adjustments by reference to a final valuation of the relevant intellectual property rights. Further details of this acquisition were set out in the Company's announcement dated 29 July 2005.

(v) On 10 August 2005, pursuant to the Exchange Option Agreement, the Company entered into the Option Closing Agreement with Thomson. Pursuant to the Option Closing Agreement, Thomson exercised the Exchange Option to exchange its 33% equity interest in TTE for shares in the Company (the "Share Exchange"). The completion of the Share Exchange took place on the same day and a total of 1,144,182,095 shares representing 29.32% of the enlarged issued share capital of the Company were issued to Thomson. In addition, according to the Exchange Option Agreement, the Company made a cash payment of HK$43,800,000 to Thomson as additional consideration for the Share Exchange. Further details of this transaction were set out in the Company's announcement dated 10 August 2005.

(vi) On 31 December 2005, the Company, TCL Corporation, TTE and Thomson entered into the Settlement Agreement and pursuant to the Settlement Agreement, the Group agreed to pay to Thomson and Thomson also agreed to pay to the Group an aggregate amount of HK$17,474,000 and HK$51,513,000, respectively, as compensation for the shortfall of asset contribution by each other according to the Combination Agreement.

(vii) During the year, the Group used certain registered trademarks of TCL Corporation, including "TCL" and "Rowa", for the manufacture and sale of television products. No royalty was paid to TCL Corporation because, according to the TCL Trademark License Agreement dated 30 July 2004, no royalty shall be payable by the Group prior to the second anniversary of the closing (i.e. 30 July 2004) of the Combination Agreement.

Except for transactions with jointly-controlled entities included in item (a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible notes, other interest-bearing borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. On specific cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group Treasury hedges foreign exchange risk on its commercial exposures and financial exposures. For commercial exposures, generally 80% of the exposures must be hedged (but may vary with the historical volatility and country risks) after netting off exposures at Group level. Hedging for commercial exposures are normally in short-term nature with a maximum of a six-month period which corresponds to the Group's sales cycle. It is the Group's policy to borrow and invest excess cash in the functional currency of its businesses to minimise its foreign currency exposures.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, factoring and other interest-bearing loans.

46. POST BALANCE SHEET EVENTS

(a) Pursuant to the resolution passed on 27 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 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.

(b) On 9 March 2006, TCL King Electrical Appliances (Huhehaote) Company Limited ("TCL King Huhehaote"), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with TCL Corporation in relation to the setting up of a finance company in the PRC (the "Finance Company"). Pursuant to the Investment Agreement, TCL King Huhehaote is required to contribute RMB70 million (the "Capital Contribution") as capital contribution to the Finance Company, representing 14% of the registered capital of the Finance Company.

The Capital Contribution was made by the Group on 9 March 2006 and 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.

47. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2006.

FIVE YEAR FINANCIAL SUMMARY
Year ended 31 December 2005

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
TURNOVER	**34,556,330**	25,599,840	15,148,652	12,187,549	9,609,735
PROFIT/(LOSS) BEFORE TAX	**(584,098)**	417,455	719,025	637,865	315,963
Tax	**(119,169)**	(129,511)	(76,513)	(45,173)	(25,031)
PROFIT/(LOSS) FOR THE YEAR	**(703,267)**	287,944	642,512	592,692	290,932
Attributable to:					
Equity holders of the parent	**(598,893)**	308,985	634,764	573,651	291,830
Minority interests	**(104,374)**	(21,041)	7,748	19,041	(898)
	(703,267)	287,944	642,512	592,692	290,932
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**18,151,136**	16,902,901	8,669,896	7,790,107	5,775,285
Total liabilities	**(14,052,144)**	(12,549,943)	(4,449,566)	(4,163,739)	(2,804,839)
Minority interests	**(108,476)**	(1,422,082)	(100,079)	(60,378)	(36,508)
	3,990,516	2,930,876	4,120,251	3,565,990	2,933,938