annual report 2007

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 1070

创意感动生活
The Creative Life

Corporate Profile

TCL Multimedia Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") is one of the world's largest global TV manufacturers and distributors and its products are sold over the world. The Group is active in all major global markets in the Americas, Europe, and Asia. The Group's largest shareholder is TCL Corporation.

Contents

Financial Highlights

FINANCIAL PERFORMANCE

(HK$ Million)	2007	2006
Turnover	**21,294**	29,187
Gross profit	**3,567**	4,496
Gross profit margin (%)	**16.7%**	15.4%
Net loss	**(262)**	(2,497)
Basic LPS (HK cents)	**(5.13)**	(55.99)
Dividend per share (HK cents)	**–**	–

FINANCIAL POSITION

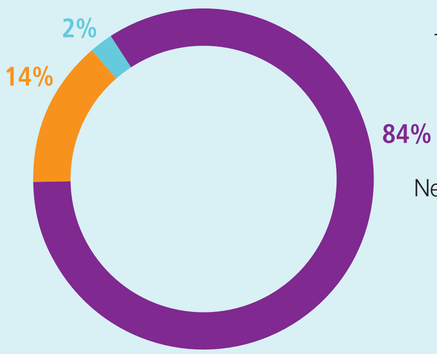
(HK$ Million)	2007	2006
Property, plant and equipment	**1,667**	1,994
Cash and bank balances	**1,095**	1,905
Total assets	**10,780**	12,397
Total liabilities	**8,516**	10,707
Interest-bearing debts	**2,071**	2,942
Net assets	**2,264**	1,690

OPERATION INDICATORS

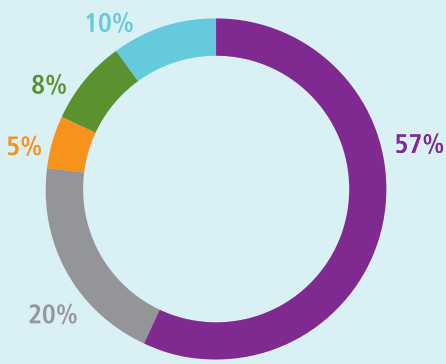
	2007	2006
Return on equity (%)	**(12)%**	(156)%
Finished goods inventory turnover (days)	**44**	36
Accounts receivables turnover (days)	**54**	60
Accounts payables turnover (days)	**90**	90
Current ratio	**1.1**	0.9
Net borrowings/equity	**0.45**	0.65

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

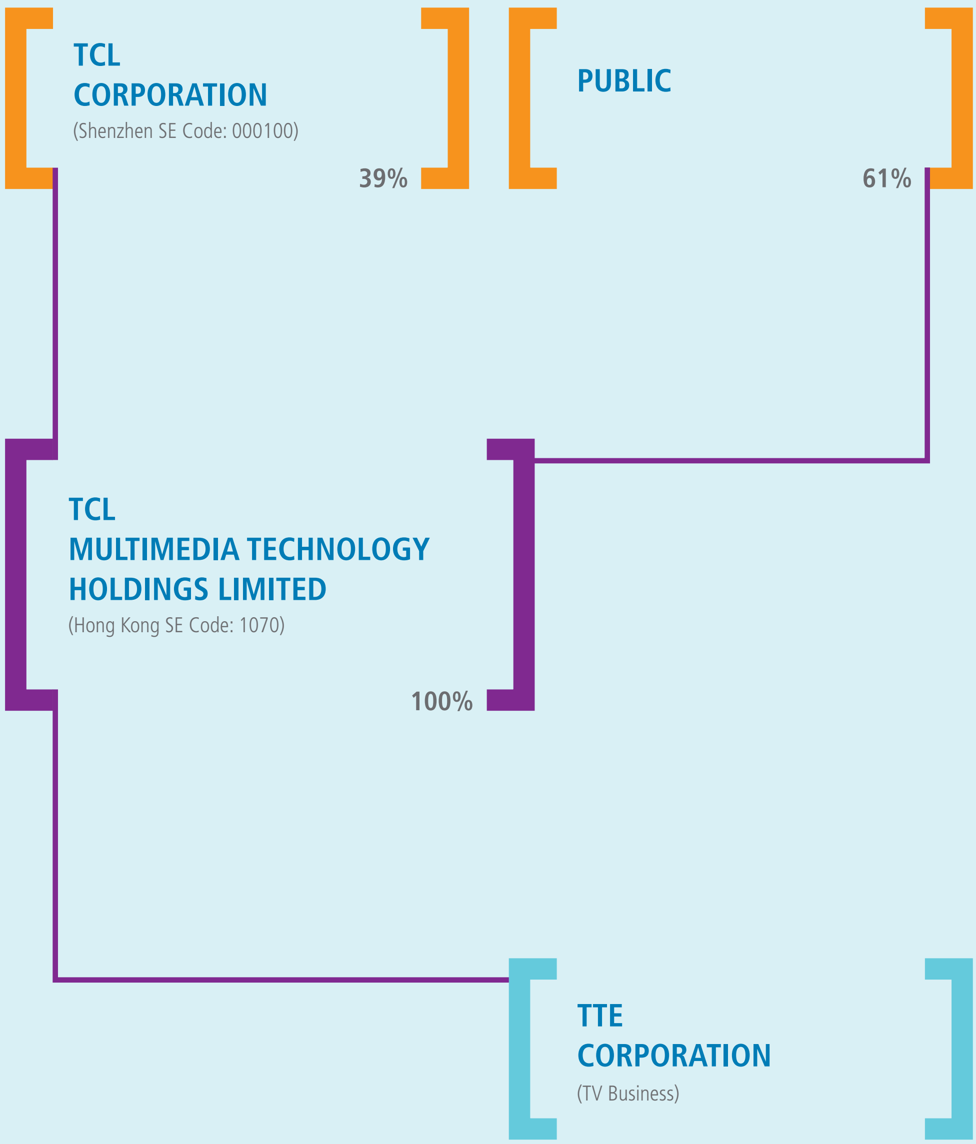
TURNOVER BREAKDOWN BY PRODUCTS



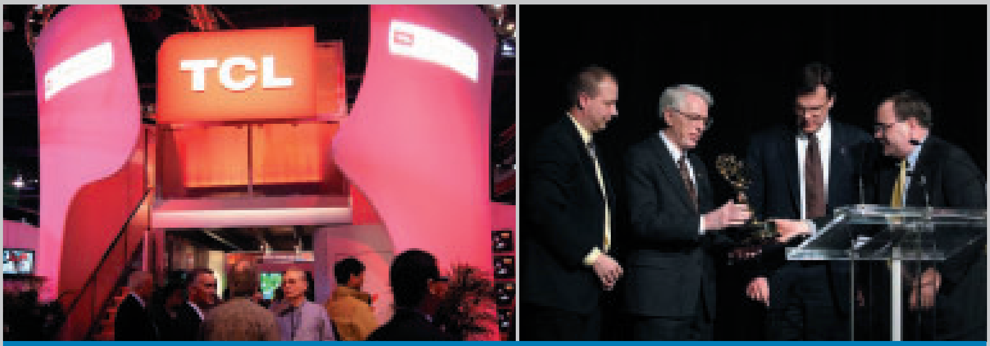
TURNOVER BREAKDOWN BY REGIONAL BUSINESS CENTRES



Corporate Structure



Year in Review 2007



JANUARY

JANUARY

The Company participated in the Consumer Electronics Show ("CES") and won an "Emmy Award" sponsored by the National Television Academy for technology in digital television display.

FEBRUARY

First shipments of TVs by New Europe Business Center.

MARCH

The Group's LCD TV passed the test of high-definition standards and received certification from China Electronic Standardization Institute (CESI)

MAY

Restructuring of TTE Europe concluded.

JULY

The Group's E72 television won the German "Red Dot" design award.

Successful completion of rights issue and issue of convertible bonds raised approximately HK$1,876 million (before expenses) for working capital and loan repayment funds.

JAN FEB MAR APR MAY JUN

SEPTEMBER

SEPTEMBER

Signing of three year agreement for manufacturing mobile phones for TCL Communications by the Group's Mexico factory

The Group launched the world's thinnest full HD LCD TV, Bojue H78

The Company purchased 100% shares of Asic Microelectronics

OCTOBER

Consumer electronics industry veteran Mr. Leong Yue Wing joined the Company as CEO

The Group sold Huizhou Er Ji Di to Huizhou Land Reserve Center

"Fortune" magazine named the Company as one of the most admired Chinese companies of 2007

DECEMBER

The Group's E72 television was selected by "Fortune" magazine as one of the leading products of 2007

The Group's products were selected to participate in the Government's "Household Appliance Subsidy Scheme" for farmers in Shandong, Sichuan and Henan provinces, piloted between 1 December, 2007 and 31 May, 2008.

The Company participated in Business of Design Week in Hong Kong, based on the design awards won by the Company's TV products.

The Group extended an OEM agreement with a major international brand to cover the supply of LCD TVs in 2008.

JUL AUG SEP OCT NOV DEC

Chairman's

Statement

Chairman's Statement

"The new competitive environment – global, fast-paced and complex – will demand more from our management. I am confident that our team possesses the right mix of industry expertise, international experience, and a fresh, rigorous approach."

Dear Shareholders,

Following three years of business integration and rationalization, the Group achieved improvements in competitiveness and has built a solid basis for sustaining its future growth.

BUSINESS REVIEW

Major Accomplishments in 2007

The Group improved in key operational areas during the year under review. First and foremost, the Group maintained its leadership of the PRC as that market's leading TV manufacturer in terms of sales volume. Underlining its dominant position, the Group's LCD TV sales volume achieved over 60% year-on-year growth. At the same time, the Group's ultra-thin CRT TV continued to broaden its coverage, enjoying almost 20% market share in 2007.

In Europe, the Group completed the restructuring and closure of loss-making units and launched a new business unit built on a different business model. We are pleased to see that unit exceed full year targets for gross margin and achieving a high degree of sales efficiency, indicating that we are moving in the right direction to regain operating profitability in this important market. Moreover, we will continue to build market presence for TCL brand, as a way to diversify and accentuate our capabilities.

In the Emerging Markets, the Group has realigned its operations to focus on developing only those markets and products with significant profit potential. By re-focusing its resources in this manner, the Emerging Markets unit was able to narrow its operating loss while strengthening operational efficiency.

In North America, which has undergone rapid shifts in consumer preference, the Group successfully increased its share of the LCD market and more than doubled the portion of sales derived from LCD TVs. We expect the strong growth of LCD sales to continue, such that the great majority of our sales in North America will be derived from LCD from 2008 onwards. This will be important for us to recapture market share across the board.

The Group achieved a major breakthrough in its OEM business by extending a supply contract with one of its existing customers to cover LCD products. The LCD product series, which will be co-developed by the Group and its major international customer, will boost the Group's capability and cost efficiency in manufacturing products with the latest TV technology. We believe that this LCD agreement has the potential to catalyse our efforts to become one of the world's major players in the global LCD market.

Chairman's Statement

For Home Networking, during the year under review, the Group's DVD OEM operations secured several international A-brand customers. Its sales volume grew to 19,589,000 sets, with a 35% rise in sales revenue. As a results, the unit emerged as a global leader in its respective market sector, with an estimated 10% market share.

Our efforts to continue our operational upgrade to position the Group for sustained growth were recognized by the market in our successful issue of convertible bonds and completion of rights issue. The bonds, which when combined with the rights issue that took place at the same time, were instrumental in improving our financial position, with our ratio of equity to assets rising from 12.9% to 20.0%.

Looking ahead with a new CEO and management team

In September 2007, the Group announced the appointment of Mr. Leong Yue Wing as the Chief Executive Officer ("CEO") and Executive Director of the Company. As a seasoned manager and professional, Mr. Leong has over 28 years experience in all aspects of the audio-visual and consumer electronics industry. Mr. Leong's industry expertise, understanding of the PRC and major global markets and track record within a major international conglomerate have already contributed to the acceleration of the Group's turnaround and internationalization.

We have also recruited certain executives with international experience in key functions such as supply chain management, technology development and quality control, and renewed management in the regional business units. These changes underscore our belief that the new competitive environment – global, fast-paced and complex – will demand more from our management. I am confident that our new team possesses the right mix of industry expertise, international experience, and a fresh, rigorous approach to implant a back to back management model throughout the corporate structure that will enable the Group to further build on the gains of the past year.

Development strategies

The successful restructuring of our main business operations, combined with the stabilizing of our management team give the Group a solid basis for future growth. The opportunities in 2008 – this year of the Olympic Games in China – are plentiful. The global economic environment, however, remains challenging, and costs for many basic commodities, transport and materials will continue to rise. Therefore, we should stay alert of the market environment, and strive to promptly adjust to meet market changes and through rationalising our workflow and intensifying our R&D effort to achieve favorable results.

Nevertheless, we remain optimistic that our renewed organization and supply chain will give us the tools we need to compete effectively. Indeed, we are looking to lift our market share in key product lines such as LCD TVs. In the PRC, the Group will capitalize on its dominant market presence and strong distribution channels to continue to enlarge its market share in different segments of this enormous market. The trend of replacing CRT TV with LCD TV's in North American and Europe is expected to sustain a continued growth in sales of the Group's LCD TVs in these markets. Overall, we expect LCD TV to become a major profit driver for the Group in the year 2008.

At the same time, we will maintain our leading position in the world's CRT TV market by continuing to introduce new advancements to make CRT TVs an attractive, low-cost consumer item. Although CRT TVs are being phased out of some advanced markets, new developments in "thin" and other technologies, backed by the Group's cost competitive production, will help to extend its life-span and broaden its customer base. As complements to our TV product lines, the Group will also continue to grow our OEM business in DVD, home networking and audio-visual products.

The Group's R&D effort will be focused on the extension of its product range utilizing existing technology, such as the production of high-definition camcorder and digital photo frames, and the development of TVs of the next generation.

The TV industry is extremely dynamic with a huge horizon for innovation, advancement and expansion. However, it is also highly competitive due to the rapid replacement of technology and strong pressure on selling prices and production costs.

Our improved performance gives us reason to be hopeful, yet the management remains well aware of the challenges ahead. Given a well-trained workforce guided by a seasoned management team, we are look forward to capitalising on our potential in the coming years.

LI Dongsheng
Chairman

13 March 2008

Management

Discussion and Analysis

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, the Group's operating environment remained challenging as major global markets continued their transition from CRT to flat panel TVs and from analog to digital technology. Price and feature competition continued to put pressure on costs and to challenge manufacturers to continually seek ways to define their edge. In light of the changing market the Group maintained tight control over its product mix and managed to increase sales of LCD TVs. In this year of business re-focusing, the Group's turnover decreased to HK$21,294 million.

Despite the challenging market conditions, the Group accelerated restructuring and achieved marked gains in its supply chain, sales, and distribution efficiency, resulting in an increase in gross margin from 15.4% in 2006 to 16.7% in 2007. The Group recorded a loss before fair value changes on the derivatives and tax amounting to HK$443 million for the year ended 31 December 2007 (31 December 2006: HK$2,374 million).

The Group's strong global market presence and its leading position in the PRC market in the TV industry were recognised by investors. The Group successfully launched Convertible Bonds and completed a Rights Issue during 2007. These fundraising exercises generated approximately HK$1,876 million before expenses, which helped to strengthen the Group's financial position and to provide necessary capital to enhance its competitiveness.

Sales Volume by region for the twelve months ended 31 December is indicated below

	2007 ('000)	2006 ('000)	Change
TV Unit Sales (TOTAL)	**15,011**	22,160	(32.3%)
The PRC	**7,136**	7,976	(10.5%)
Europe	**852**	1,726	(50.6%)
North America	**1,673**	3,049	(45.1%)
Emerging Markets	**3,007**	3,920	(23.3%)
Strategic OEM	**2,343**	5,489	(57.3%)
Home Networking (Unit Sales)	**19,589**	16,501	18.7%

Management Discussion and Analysis

TV Sales

During the year under review, the Group sold a total of approximately 15 million TV sets. Although this represents a decline when compared to 2006, the Group improved its product mix, selling proportionately more high-end flat panel products compared to traditional CRT TVs. Revenues from TV sales amounted to HK$17,867 million, accounting for 84% of the Group's total revenue.

During the year under review, the global TV market was characterised by rapid phasing out of CRT TV and intense price competition in LCD TV. The Group therefore adjusted its production lines to substantially increase its LCD TV output to satisfy strong market demand. The securing of a major LCD OEM supply contract at year end demonstrates the significant advances made by the Group in revamping its manufacturing operations so as to become a dominant LCD TV player.

The PRC Market

The Group sold 7,136,000 TV sets to the PRC Market during the year under review, underlining its position as the market leader in the PRC in terms of sales volume.

The Group's gross profit in the PRC increased to HK$2,413 million showing increased operational efficiencies and good management of the market transition towards flat panel products. The change in consumer preference had led to a 15% decline in sales volume of CRT TV. However the strong performance of LCD TV in the PRC—indicated by a 63% rise compared to last year – enabled the Group to maintain its leadership.

Overall, the Group intends to continue to compete fiercely in its home market, with the aim of using the upward trend in LCD sales to further consolidate the Group's dominant position in the market.

European Markets

During the year under review, the Group completed the restructuring and closure of loss-making business lines and successfully launched the Borderless Centralized Business Model (BCBM) to sell a total 852,000 TV sets.

During the year under review, the new European business unit achieved a sales revenue of HK$874 million with 75% of the sales attributable to the top 15 customers, exhibiting a high degree of sales efficiency. The unit continued to strengthen its performance and began to generate operating profit in the second half of the year.

In line with market changes, the Group launched LCD TV in the second half of 2007, and will continue to promote sales of flat panel TVs as a way to build position in this market.

North American Markets

The Group's realignment of its North America unit continued in 2007. Overall, the RCA brand under which all the Group's products are sold, was ranked third with 7% market share among the top players in the North America.

The demand for LCD TV products rose sharply, with the North American market transitioning to digital broadcasting. The Group's LCD sales volume increased on the basis of strong demand from consumers, and recorded a more rapid rise than most industry competitors.

Emerging Markets

Business restructuring and re-positioning of the Group to allocate more resources to profitable markets and product segments achieved good results in 2007. In addition, the re-engineering of internal processes and more stringent risk management also contributed to reduced operating cost. During the year under review, the Emerging Markets significantly reduced its operating loss compared to 2006 and improved operating efficiency.

As the developing world lags advanced industrial markets in the global shift towards flat panel products, CRT TVs continue to represent good value and therefore maintain their selling power. During the year, the Group sold 3,007,000 TV sets to the Emerging Markets to earn revenue of HK$1,778 million.

Strategic OEM

The Group's OEM sales declined in the first half of the year, due to a contraction in the global demand for CRT TVs. However, the Group astutely used this expected slowdown in demand to invest in its LCD production capability, which paid off in December 2007 with the signing of a major LCD supply agreement with a leading international customer. The agreement signals a major breakthrough for the Group, and will raise the Group's LCD OEM ability.

Home Networking Products

During the year under review, the Group's DVD OEM operations secured several international A-brand customers to record growth in volume to 19,589,000 sets and a 35% rise in sales revenue. As a result, the unit emerged as a new global leader in this category, with an estimated 10% market share.

Management Discussion and Analysis

The Group also launched its set top box business in 2007, and the product generated a sales revenue of HK$132 million during the year. The Group has stepped up efforts to broaden its sales in the PRC. The Group's set top boxes succeeded in penetrating into Inner Mongolia, Jilin and Chengdu.

R&D

To maintain its profitability and its international competitiveness in the international market, the Group continued to strengthen its staff's technical skills and promote a results-oriented culture. Substantial R&D efforts have been placed on digital TV production, and enhancement of product design and quality. To meet the digital broadcast schedules, more resources will be devoted to developing technologies for LCD TVs with integrated intelligence and broadband compatible features to meet various national broadcasting standards.

OUTLOOK

The PRC is moving swiftly towards digitalization in television broadcasting. The government has already set the timetable for the conversion to digital broadcasting, which is a key project during the 11th Five-Year Plan period (2006~2010). Together with the 2008 Summer Olympics in Beijing, sales of consumer electronics goods and LCD TVs in particular, are expected to see good support. The Group sees good opportunities to promote its TV products in mainland PRC.

The Group's strategy in the PRC Market is to continually increase the proportion of high-end TVs, which are priced close to comparable items of top tier competitors, while maintaining a steady hold on the faster moving mass-market TV segment. The Group's high brand recognition and leadership position in the PRC gives it a strong foothold to continue to advance in the flat panel TV segment and in major cities.

Likewise in Europe, the world's largest LCD TV market, the momentum of demand growth of LCD is expected to continue as Europe's high definition TV transition is also well underway. The European TV market is expected to grow in quantity by 2% to 3% in 2008 and the European Football Cup is expected to further boost the sales of large screen and full HD flat TV. Responding to the market demand, the Group plans to significantly increased its LCD TV shipments for 2008.

In North America, the Group expects flat market conditions as the poor economic environment offsets growth in demand for digital products. Gross margins will remain tight and operating costs may rise due to new directives on electronic product treatment and disposal.

With the approach of the Beijing 2008 Olympics, more demand for TVs in the Emerging Markets is expected. Competition from the Korean and Japanese counterparts will be keen, especially in the LCD TV market. Moving forward, the Group remained optimistic about the future growth and development of the new markets in South America and the Middle East.

With high demand for flat panel TVs in major markets, the Group will expand its production capacity and sales volume of LCD in the coming years. The Group's global market share of LCD is expected to increase in 2008 while maintaining its competitive advantages in traditional CRT market. The Group will also introduce new products such as high-definition camcorder and digital photo frames in order to address more customer needs and develop a wider revenue base.

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

As part of the Group's restructuring and cost-cutting measures, the amicable winding-down of the loss-making Europe Business unit ("EU Business") ended on 24 May 2007 when the legal entity housing that unit – TTE Europe filed a declaration of insolvency to the French Commercial Court. Subsequently, on 29 May 2007, the Court appointed a judicial liquidator to take control of TTE Europe. The liquidation of TTE Europe is not expected to have a material adverse financial impact to the Group.

On 27 September 2007, TCL King Electrical Appliances (Huizhou) Company Limited ("TCL King"), a wholly owned subsidiary of the Company entered into two separate equity transfer agreements with TCL Corporation and T.C.L. Industries respectively to acquire 75% and 25% equity interest in Shenzhen Asic Microelectronics Ltd ("Asic Microelectronics"). Upon completion of the Acquisition on the same date, Asic Microelectronics has become a wholly-owned subsidiary of the Company. The total consideration paid for Asic Microelectronics was approximately HK$25.75 million. The reason for the purchase is to derive greater synergies based on Asic Microelectronics's capabilities in design, technology and production.

Management Discussion and Analysis

On 28 September 2007, Huizhou Land Reserve Centre (惠州市土地儲備中心), a governmental department of Huizhou, PRC ("Huizhou Land Reserve Centre") and TCL King Electrical Appliances (Huizhou) Co. Ltd ("TCL King"), a wholly-owned subsidiary of the Company, entered into a land use right transfer agreement (the "Agreement"), pursuant to which TCL King agreed to dispose of the land use right of the several parcels of land located at Section 12 and Section 13 Zhongkai District, Huizhou, PRC together with the buildings situated thereon (the "Land") to Huizhou Land Reserve Centre for a total consideration of RMB162,281,752 (equivalent to approximately HK$167,150,205). The proceeds of the disposal will be used as general working capital of the Group. The disposal was mainly due to the change in town planning policies adopted by the local government. Considering the disposal would not have any adverse impact on the business of the Group, but would rather generate profit for the Group, the Director viewed the disposal was in the interests of the Company and shareholders of the Company.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, factorings, Convertible Bonds, 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 balance as at the year end amounted to HK$1,095 million, of which 4% was maintained in Hong Kong dollars, 22% in US Dollars, 59% in Renminbi, 4% in Euro and 11% 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 2006 and there was no asset held under finance lease at the year end.

At the year end, the Group's gearing ratio was 45.2% which is calculated based on the Group's net borrowing of approximately HK$976 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the Company of approximately HK$2,159 million.

Pledge of Assets

At 31 December 2007, none of the Group's assets were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

At 31 December 2007, the Group had capital commitments contracted but not provided for and authorized but not contracted for of approximately HK$1.1 million and HK$1.8 million respectively. Guarantees given in lieu of utility and rental deposits amounted to approximately HK$1.4 million.

In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe against the Company, TTE Europe and TTE Belgium S.A. ("TTE Belgium"), an indirect wholly-owned subsidiary of the Company, for alleged breach of certain regulations of the French labor laws, alleged-nullity of the redundancy plan and alleged unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro17 million (equivalent to approximately HK$196 million).

The directors, based on the advice from the Group's legal counsels, believe that the Company and TTE Belgium have a valid defence against the Claims and, accordingly, have not provided for any liability arising from the Claims.

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 29,749 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. Options for subscribing a total of 370,540,085 shares remained outstanding at the year end.

Directors

and Senior Management

Directors and Senior Management

Mr. LI Dongsheng　Mr. LEONG Yue Wing　Mr. YUAN Bing

EXECUTIVE DIRECTORS

Mr. LI Dongsheng

aged 50, is the founder and Chairman of the Company. He holds ultimate responsibility for the Group's strategy and leadership. During his more than 20 years of experience in China's consumer electronics industry, he has received numerous awards, including the following:

1994	"Distinguished Contributor to Development of PRC Consumer Electronics Industry"
1995	"National Excellent Young Entrepreneur"
2000	"Model of National Work Force"
2002	Representative to the Central Committee of the 16th National Congress of the Communist Party of China
	2002 CCTV China Economic Leadership Award & Annual Innovation Award
2003	Delegate to the 10th National People's Congress
	One of the most influential entrepreneurs 2003 by "China Entrepreneur" magazine
2004	"Asian Businessman of the Year " by "Fortune" magazine.
	2004 CCTV China Economic Leadership Award
	One of the "25 Global Influential" by "Time" magazine.
	Medal of French National Honor (OFFICIER DE LA LEGION D'HONNEUR)
2005	One of the most influential business leaders by "China Entrepreneur" magazine
2006	One of the most influential business leaders by "China Entrepreneur" magazine
2007	The Business Strategic Excellence Award in US-CHINA FORUM 2007 Chicago

Mr. Li was educated as an engineer, and holds a Bachelor of Science degree from South China University of Technology.

Mr. Li is also the Chairman and CEO of TCL Corporation and Chairman of TCL Communication Technology Holdings Limited.

Mr. LEONG Yue Wing

aged 55, is Chief Executive Officer ("CEO") and Executive Director of the Company with effect from 1 October 2007, responsible for the overall management of the Company including strategy, business development and operations. Mr. Leong has a Bachelor's degree in Mechanical Engineering and an MBA from the University of Singapore (currently National University of Singapore). Mr. Leong had been associated with Royal Philips Electronics for 28 years since 1978. Mr. Leong retired from the position of Executive Vice President – Philips Consumer Electronics in April 2007. Mr. Leong has extensive management experience in the production and sales of audio-visual and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets.

Mr. YUAN Bing

aged 38, Acting Chief Financial Officer ("CFO") of the Company. Mr. Yuan is also the Vice President and CFO of TCL Corporation. He has 17 years of extensive working experience in consumer electronics industry. He joined TCL Group in 1999, and has been Director of Financial Department of TCL Corporation until August 2000, General Manager of Financial Department of the Company from September 2000 to January 2002, Deputy Chief and then

Directors and Senior Management

Mr. SHI Wanwen | Mr. WANG Kangping | Ms. LU Zhongli | Mr. Albert Thomas DA ROSA, Junior

Chief of Strategic Development Department of TCL Corporation from January 2002 to August 2005; Financial Controller of TCL Corporation from August 2005 to now, and the General Manager of Financial Management Center and Chief of Investment Management Department from August 2005 to September 2007. Mr. Yuan has extensive experience in accounting and financial management. He graduated from Shanxi University of Finance and Economics with major in Accounting.

Mr. SHI Wanwen

aged 41, is a Vice President of TCL Corporation and a Director of the Board of the Company. Mr. Shi was previously the Group's Chief Operating Officer and General Manager of the Emerging Market Business Center. Mr. Shi holds a Bachelors degree in Wireless Technology from the South China University of Technology.

Mr. WANG Kangping

aged 39, joined TCL Corporation in 2002, is Vice President of TCL Corporation and President of TCL home appliance group. Mr. Wang has over 15 years experience in the home appliance industry. He was the Chief Engineer in Shandong Hongyi Air-Conditioner Co. Ltd., Design Manager in Guangdong Kelon Air-Conditioner Co., Ltd., Vice General Manager of Kelon (Japan) Co. Ltd., General Manager and Director of Guangdong Kelon Air-Conditioner Co., Ltd., Vice President of Guangdong Kelon Electrical Holdings Co. Ltd. and President of the home appliance branch of TCL Corporation, Mr. Wang graduated from Beijing University of Aeronautics and China Europe International Business School, with a Master degree in Business Administration.

Ms. LU Zhongli

aged 62, is Chairman of TCL Finance Co., Ltd. She was Director and Senior Vice President of TCL Corporation Ms. Lu has over 38 years of experience in financing, taxation, accounting and financial management. Ms. Lu is an accountant, graduated from Hubei University.

NON-EXECUTIVE DIRECTOR

Mr. Albert Thomas DA ROSA, Junior

aged 54, 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 Limited. He also serves as a member of the Solicitors Disciplinary Tribunal Panel, the Academic and Accreditation Advisory Committee of the Securities and Futures Commission and the Panel of the Board of Review (Inland Revenue) respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Guliang

aged 45, is a professor at University of International Business and Economics, School of Business. 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. Robert Maarten WESTERHOF

aged 66, has over thirty years' experience in the electronics industry. He had been Executive Vice President of Philips Electronics' operations in Asia and North America. Since 2004, he has been President of the renowned Dutch football club PSV. He is CEO and Executive Director of MeDaVinci PLC, an investment company in the area of medical innovations listed on the Alternative Investment Market in London. He serves as Chairman of the Supervisory Board of Nucletron, a worldwide medical treatment company based in Netherlands. He is also a member of the Supervisory Board of Teleplan, a hardware services provider listed on the Frankfurt Stock Exchange, a member of the Advisory Board of Brand Loyalty, a consultancy firm in the area of consumer loyalty programs based in the Netherlands, and a member of the Advisory Board of VKA, an IT strategy company based in the Netherlands. Mr. Westerhof holds a Master's degree in Business Administration at the Erasmus University of Rotterdam. He is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

Ms. WU Shihong

aged 51, has extensive experience in the information technology industry. Ms. Wu joined IBM China in 1985 and she was General Manager, Channel Management of IBM China from May 1997 to February 1998. She then became General Manager of Microsoft China Co. Ltd. until August 1999. From 1999 to 2002, Ms. Wu was the Vice President of TCL Corporation, and General Manager of TCL Information Technology Industrial (Group) Co. Ltd., a wholly-owned subsidiary of the Company. Since January 2002, she has been studying in the area of philanthropy. Ms. Wu was elected by the "Fortune" magazine as # 24 of the "Most Powerful Business Women in the World, Year 2002".

SENIOR MANAGEMENT

Mr. Didier JUIN

aged 50, currently is Senior Vice President and Chief Operating Officer of the Company. Mr. Juin has over 25 years of experience in consumer electronics, including 10 years in Asia Pacific region. He has a strong background in purchasing, product planning and business line management with international conglomerates such as Philips Consumer Electronics. Mr. Juin graduated from University of Le Havre with a Masters Degree in International Business.

Mr. Etienne DUCROT

aged 48, currently Chief Technology Officer, has two Masters degrees: one degree in Electronics and Automation from University of Nancy, France and another in Engineering Sciences from Ecole Superieure d'Electricite (ESE), France. Mr. Ducrot has over 20 years of experience in consumer electronics, semiconductor and telecommunication businesses and has led research and development in major international companies such as Philips Consumer Electronics.

Directors and Senior Management

Mr. YU Guanghui

aged 39, currently is Vice President of TCL Corporation, Vice President of the Company, and General Manager of Home Network Business Unit of the Company. Joined TCL Corporation in 1993, he has worked in the joint venture company between TCL and LGE and has more than ten years of experience in material procurement, production planning and product manufacturing. He was one of the leaders who were in charge of early construction and management of the TCL King TV production base. He graduated from the Shanxi Normal University with a Master degree in Physics and has obtained a MBA degree at Peking University.

Mr. CHEN Wu, Morgan

aged 36, the Vice President of the Company and General Manager of Global Industry Center, has overall responsibility for global manufacturing. Mr. Chen joined TCL Corporation in 1993 and served as the General Manager of the multimedia division, communications division and overseas divisions, and was Vice President of TTE' s North America Business Center and Europe Business Center. Mr. Chen has extensive experience in the industrial sector and broad international outlook. Mr. Chen holds a Bachelor degree of Engineering from Xi'an Petroleum University.

Mr. CHEN Xiaochun

aged 40, Vice President of the Company and General Manager of Global R&D Centre. He is in charge of launching of new products, enhancing the competitiveness of the R&D function, and leading the R&D team. Mr. Chen joined TCL Group in 2002, and has been Senior Software Engineer of Global R&D Centre, Chief of Software Division and Deputy General Manager of R&D Centre. Before joining TCL, he was Product Engineer of Philips in Holland from 2001 to 2002, Integration Manager of Philips Singapore from 1999 to 2001, General Manager of Development Department of Changzhou Bo Da Electronic Industry Company from 1993 to 1999, and Software Engineer of Development Department of Changzhou Computer Factory from 1988 to 1992. Mr. Chen has over 19 years of experience in R&D area. He graduated from China Southeast University with a Bachelor degree in mathematics.

Mr. LEE Kheng Hock

aged 54, currently is a Vice President of the Company, General Manager of Strategic Purchasing & Supply Chain Management. Before joining the Company, Mr. Lee was responsible for the global purchasing and supply chain function in many multinational corporations including Compaq Asia PTE Ltd. and Philips. Mr. Lee has an MBA degree from University of Strathclyde, UK.

Mr. HAN Qing

aged 36, joined TCL Corporation in 1994. He had been General Manager of Jinan Branch, TCL Corp and Sales Director of TCL Household Appliance Marketing Co., Ltd. Mr Han has 12 years of experience in sales management and is currently the Vice President of the Company and General Manager of the Company's China Business Centre, responsible for the sales of TCL's television sets in China. Mr Han graduated from Jilin Institute of Optics & Mechanics of China (the predecessor of Changchun University of Technology), and holds master's degrees in management and economics.

Mr. YAN Fei

aged 45, is currently Vice President of the Company, General Manager of Europe Business Center. He has more than 20 years cross-cultural professional experience acquired in Belgium, France and China, covering manufacturing, electronics and high tech industries. Prior to joining TCL in 2004, he held various technical and general management positions in multinational companies such as Schlumberger, Saint-Gobain and Sagem. Mr. Yan has been managing multicultural teams in Sino-European joint venture companies since 1999. Before taking responsibilities of Europe Business Center in June 2006, he served as General Manager- TV business and Vice President of TTE Strategic OEM Division. Mr. Yan holds a Bachelor degree in Engineering from Northwest Polytechnic University of China, a Master degree in Engineering and a Ph.D degree in Applied Sciences from Louvain University, Belgium. He was also a former Lecturer of Louvain University.

Mr. Richard DINSMORE

aged 49, a consumer electronics professional for 20 years, is currently Executive Vice President of the Company's North American Business Center. Prior to joining the Company, Mr. Dinsmore had worked for Thomson since 1987. His experience includes the management of industrial design, product management, brand management, marketing, warranty and aftersales. He has a proven track record in leading international teams to support business requirements. Mr. Dinsmore holds a BS degree from the University of Cincinnati and has done post graduate studies at Syracuse University (ESF), Lemoyne College and University of Michigan.

Mr. CHEN Weidong

aged 39, is Deputy General Manager of Emerging Markets Business Center. Mr. Chen joined TCL in 1996, and has also served as Vice President of the China Buisness Center. He has accumulated 12 years experience in sales management, with a proven record in growing sales revenue. Mr. Chen graduated from North-west Normal University with a Bachelors degree of management.

Mr. YUAN Yi

aged 41, Corporate Financial Controller of the Company and Financial Controller of Global Manufacturing Centre. He joined TCL in 1997 and since then has been Costing Director of TCL King Electronics (Huizhou) until 1999, Financial Manager of TCL Inner Mongolia King Electronics Company Limited from 1999 to 2002, Financial Manager of TCL King Electronics (Huizhou) from 2002 to 2004, Assistant to General Manager of Finance Centre of the Company from 2004 to 2005, Assistant to Senior Vice President of TCL Group Financial Management Centre from 2005 to 2006, and Deputy General Manager of TCL Group Financial Management Centre from March 2006 to August 2006. Mr. Yuan has extensive experience in financial management. He graduated from Hubei University in 1987.

Directors and Senior Management

Mr. Dominique LEYMARIE aged 55, is Global Human Resource Director of the Company. Before joining TCL, Mr. Leymarie had more than 25 years experience in Human Resources management. He used to be a Senior Partner of REDESIGN PARTNER Group in Europe, specialized in turn around management, and had held human resources management positions in different multinational companies, e.g. Sodiaal Group and Royal Philips Electronics, etc. He has a Bachelor degree from University of Southwest Louisiana State, USA, a Master degree from Centre d'Etudes Supérieures Industrielles and graduated from Doctorial Studies in Organizational Sciences from Université Paris IX Dauphine.

Mr. YANG Bin aged 39, General Manager of CRT Business Unit of the Company. He joined TCL Corporation in 1991 and served as Deputy General Manager of Global Operations Center, Vice President of CRT Business Group. Before he held these positions, he has accumulated 10 years of experience in sales management. Mr. Yang graduated from Zhejiang University with a Bachelor degree in Engineering.

Mr. SIN Man Lung aged 34, Financial Controller, joined the Company in 2005. He has more than 10 years auditing, finance and accounting experience in multi-national and listed companies. Mr. Sin is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the City University of Hong Kong with a Bachelor degree in Accountancy.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Dongsheng (Chairman)
Mr. Leong Yue Wing (Chief executive officer, appointed on 1 October 2007)
Mr. Yuan Bing
Mr. Shi Wanwen
Mr. Wang Kangping
Ms. Lu Zhongli

Non-Executive Director

Mr. Albert Thomas da Rosa, Junior

Independent Non-Executive Directors

Mr. Tang Guliang
Mr. Robert Maarten Westerhof
Ms. Wu Shihong (appointed on 30 June 2007)
Mr. Wang Bing (retired on 30 June 2007)

COMPANY SECRETARY

Ms. Pang Siu Yin, Solicitor, Hong Kong

AUDITOR

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

LEGAL ADVISOR

Cheung, Tong & Rosa
Rooms 1621-33, 16/F Sun Hung Kai Centre
30 Harbour Road
Hong Kong

PRINCIPAL REGISTRAR

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

Corporate Information

BRANCH REGISTRAR

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

PRINCIPAL OFFICE

13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan New Territories
Hong Kong

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

INVESTOR AND MEDIA RELATIONS

CorporateLink Limited
17/F Winsome House,
73 Wyndham Street,
Central, Hong Kong

Corporate Governance Report

The Board of Directors of the Company ("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 April 2005, the Board adopted the code provisions (the "Code Provisions") of the "Code on Corporate Governance Practices" set out in Appendix 14 to the Listing Rules (the "Code") 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 2007, save for the deviations discussed below, the Group complied fully with the Code.

A. DIRECTORS

A1: The Board

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.

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.

Corporate Governance Report

During 2007, the Board held 4 regular meetings at about quarterly intervals and 16 additional meetings (8 of which were held regarding special matters which required the Board's decisions whereas the other 8 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2007 is as follows:

	Attendance		
	Regular Board Meeting	Special Board Meeting (special matters requiring the Board's decision)	Special Board Meeting (operational matters)
Executive Directors			
Mr. LI Dongsheng (Chairman)	4/4	7/8	3/8
Mr. LEONG Yue Wing (Chief Executive Officer, appointed on 1 October 2007)	1/1	2/2	0/3
Mr. YUAN Bing	4/4	8/8	8/8
Mr. SHI Wanwen	4/4	1/7	2/8
Mr. WANG Kangping	1/4	6/8	0/8
Ms. LU Zhongli	4/4	5/8	3/8
Non-Executive Directors			
Mr. Albert Thomas DA ROSA, Junior	3/4	6/8	N/A
Mr. Alastair Kenneth Ruskin CAMPBELL (resigned on 20 March 2007)	0/0	0/0	N/A
Mr. Didier TRUTT (resigned on 20 March 2007)	0/0	0/0	N/A
Independent Non-Executive Directors			
Mr. TANG Guliang	4/4	5/8	N/A
Mr. Robert Maarten WESTERHOF	4/4	6/8	N/A
Ms. WU Shihong (appointed on 30 June 2007)	2/2	2/3	N/A
Mr. WANG Bing (retired on 30 June 2007)	1/2	2/5	N/A

A2: Chairman and Chief Executive Officer

Mr. LI Dongsheng had taken up the roles of both the chairman and the managing director of the Company since the resignation of Mr. YAN Yong as managing director on 20 July 2006. This constituted a deviation from Code Provision A.2.1. Subsequently, the Company had actively taken steps to identify a suitable candidate to take up the post of the chief executive officer. In view of Mr. LEONG Yue Wing's extensive experience and global exposure in the electronics industry, the Board appointed Mr. LEONG Yue Wing as an executive director and the chief executive officer of the Company. The appointment became effective on 1 October 2007, thereafter Mr. LI Dongsheng was no longer the managing director of the Company, but remained as the chairman of the Board. As a result, the roles of the chairman and the chief executive officer of the Company has since then be assumed by different individuals and accordingly the Company has no longer deviated from Code Provision A.2.1. A clear distinction between the chairman's duty to manage the Board and the chief executive officer's duty to oversee the overall internal operation of the Group is also ensured.

A3: Board Composition

The Board comprises 10 directors, including 6 executive directors, 1 non-executive director and 3 independent non-executive directors. During the year, the composition of the Board has undergone the following changes:

1. resignation of Mr. Didier Trutt and Mr. Alastair Kenneth Ruskin Campbell as non-executive directors on 20 March 2007;

2. retirement of Mr. WANG Bing as independent non-executive director on 30 June 2007;

3. appointment of Ms. WU Shihong as independent non-executive director on 30 June 2007; and

4. appointment of Mr. LEONG Yue Wing as executive director and the CEO on 1 October 2007.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors is related to each other.

The non-executive directors, more than half of whom are independent, play an important role on the Board. Accounting for about half 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 the year of 2007, 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

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 2007, there were 4 Board meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of directors, and the attendance record of the directors at these meetings is as follows:

	Attendance
Mr. LI Dongsheng (Chairman)	3/3
Mr. LEONG Yue Wing (appointed on 1 October 2007)	0/0
Mr. YUAN Bing	3/3
Mr. SHI Wanwen	3/3
Mr. WANG Kangping	2/3
Ms. LU Zhongli	3/3
Mr. Albert Thomas DA ROSA, Junior	3/3
Mr. Alastair Kenneth Ruskin CAMPBELL (resigned on 20 March 2007)	0/0
Mr. Didier TRUTT (resigned on 20 March 2007)	0/0
Mr. TANG Guliang	3/3
Mr. Robert Maarten WESTERHOF	3/3
Ms. WU Shihong (appointed on 30 June 2007)	1/1
Mr. WANG Bing (retired on 30 June 2007)	1/2

During these meetings, the Board considered the nomination of all the directors appointed within 2007 (including Mr. LEONG Yue Wing and Ms. WU Shihong).

The Board adopted a "Procedure and Criteria for Nomination of Directors" in 2005, the details of which are set out below:

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

Corporate Governance Report

(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

In the annual general meeting ("AGM") held on 30 June 2007, all the then non-executive directors were elected to hold office for a specific term until the next AGM, subject to re-election by shareholders.

All the directors appointed in 2007, including Mr. LEONG Yue Wing and Ms. WU Shihong, were elected at the first general meeting held after their respective appointments.

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.

A5: Responsibilities of Directors

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 to 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 2007 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 2007 are set out in the section "Report of the Directors" of this Annual Report.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Remuneration of 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 now consists of 3 members, the majority of whom are INEDs, namely Ms. WU Shihong, who is also the chairman of the Committee, Mr. TANG Guliang and Mr. Albert Thomas DA ROSA, Junior.

4 Committee meetings were held on 6 August 2007, 12 September 2007, 16 September 2007 and 20 November 2007 which all the current 3 members Ms. WU Shihong, Mr. TANG Guliang and Mr. Albert Thomas DA ROSA Junior attended. The work performed during these meetings include the following:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- determination of the amount of bonus to be paid to certain executive director / senior management; and
- determination of the specific remuneration packages of the chief executive officer and the chief financial officer.

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 share 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
- share options of the Group, which are 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

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.

As at 31 December 2007, the Group had net assets of approximately HK$2,264 million that included convertible bonds due 2012 (the "Bonds") with an aggregate principal amount, before expenses, of US$140 million (equivalent to approximately HK$1,095 million) which were issued on 12 July 2007. The Group also recorded a loss attributable to equity holders of the parent of approximately HK$262 million for the year ended 31 December 2007.

The proceeds from the issuance of the Bonds have been split into liability and derivative components. On issuance of the Bonds, the fair value of the derivative is determined by using the Binomial Option Pricing Model; and such a value is carried as derivative component of the liability until extinguished on conversion or redemption. The derivative component is measured at fair value on the issue date and any subsequent changes in fair values of the derivative component as at the balance sheet date are recognised in the consolidation income statement.

In view of the share price of the Company dropped from HK$0.68 per share on the Bonds's issue date of 12 July 2007 to HK$0.53 per share on the balance sheet date of 31 December 2007, a fair value gain on the derivative component of the Bonds amounting to HK$241 million is resulted and credited to the consolidated income statement. Such fair value gain does not have impact on the Group's cashflow and operations.

The remainder of the proceeds is allocated to debt element of the Bonds, net of transaction costs, and is recorded as the liability component. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption.

C2: Internal Controls

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Committee also reviews the internal control report submitted by the Company's internal audit department. The Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. For the year of 2007, no critical internal control issues have been identified and efforts have been made in implementing changes to resolve the issues in questions.

C3: Audit Committee

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.

Corporate Governance Report

The Audit Committee currently comprises 3 members, namely Mr. TANG Guliang, Mr. Albert Thomas DA ROSA, Junior and Ms. WU Shihong, while Mr. WANG Bing had been a member until he retired on 30 June 2007. Mr. TANG Guliang is the chairman of the Committee. He is a certified public accountant in the PRC and a professor at the University of International Business and Economics School of Business. The Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2007, the Committee met 7 times, and details of the members' attendance are as follows:

	Attendance
Mr. Albert Thomas DA ROSA, Junior	7/7
Mr. TANG Guliang	7/7
Ms. WU Shihong (appointed on 30 June 2007)	4/4
Mr. WANG Bing (retired on 30 June 2007)	1/3

The Audit Committee meetings are normally attended by the Group's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during 2007 included consideration of the following matters:

- review of the Group's ability to continue operation as a going concern upon breach by the company of certain financial covenants under two loan agreements, which entitled the lending banks to declare that the outstanding loans were immediately due and payable;
- reasons and consequence for delay in the publication of the audited annual results announcement of the Group for the year ended 31 December 2006;
- accounting treatments adopted by the Group for preparing the financial results;
- the completeness and accuracy of the 2006 annual and 2007 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 internal control reports submitted by the internal audit department of the Company;
- the management letters submitted by the external auditors summarizing matters requiring the attention of the Board;
- the audit fees payable to external auditors, the scope and timetable of the audit for year 2007; and
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted.

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Audit services	HK$17,704,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$5,878,000

D. DELEGATION BY THE BOARD

D1: Management functions

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;

Corporate Governance Report

- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies

D2: Board Committees

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference, which are available at the Group's website www.tclhk.com. The Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

E. INVESTOR RELATIONS

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

Currently headed by the Acting CFO, the investor relations team receives full support from the Company. It maintains close contact and interactive dialogue with its key communication groups via different channels such as one-on-one meetings with analysts and fund managers, corporate presentations, teleconferences, company visits, press conferences and distribution of press releases.

To offer investors accurate information to investors and shareholders on a timely and fair disclosure basis, a series of public events were hosted by directors and senior management right after results announcements. These served as interactive platforms for the management to address questions from investors and the media.

The Company has a diversified shareholding structure with a 61% public float. Details are shown in the section entitled “Corporate Structure”

Key investor events in 2007

Events	Date
EGM (Continuing connected transactions and adoption of new share option scheme)	15 February
2006 Annual and 2007 1st Quarter Results Announcement – Press Conference and Analyst Briefing	31 May
EGM (Whitewash Waiver, increase in authorized share capital and US$140 million 4.5% per annum Secred Convertible Bonds due 2012)	21 June
2007 Annual General Meeting	30 June
2007 Interim Results Announcement – Press Conference and Analyst Briefing	7 August
EGM (General Framework Agreement for Manufacture and Supply of Mobile Phones and election of Directors	15 October
2007 3rd Quarter Results Announcement – Investor briefing	29 October

Going forward, the investor relations team will continue to work diligently to maintain the highest level of corporate transparency. To facilitate easy access to the Company’s latest corporate developments, all published information of the Group, including statutory announcements, corporate presentations, press releases and event calendars is promptly posted on the corporate website www.tclhk.com. Enquiries can also be sent to the Board or senior management by contacting the Investor Relations Department at telephone +852 2437 7481 or via email to hk.ir@tcl.com, or directly through the questions and answers session at shareholder meetings.

Human Resources & Social Responsibility

HUMAN RESOURCES

The Company's transformation from Chinese private enterprise into a global one is reflected in the Group's human resources and professional make-up.

As of 31 December 2007, the Group had 29,749 employees, 4,603 more than that in 2006. The rise is primarily due to reclassification of temporary and contract workers in mainland China before the implementation of a new labour law on 1 January 2008. Stripping out the classification changes due to the labour law, the number of employees of the Group in mainland China has shrunk by less than 1%.

Globally, approximately 15% of the Group's employees are based outside of mainland China, as indicated below:

China mainland	25,339	85.2%
Rest of Asia (including HK & India)	1,613	5.4%
North America	1,469	4.9%
Europe	1,328	4.5%

In terms of qualification and job function, approximately 32%, or 9,653 employees, are either management, technical or professional staff, while the remaining 68% are mostly factory workers. The Company's factory staff are primarily based in China, with a minority being based in the overseas factory locations of Vietnam, Thailand, Mexico and Poland.

The Group provides a full compensation and benefits system comprising medical and dental cover, training and continuing education support, pension and long-service packages, housing, food, transport, and other basic supports. The Group regularly audits and reviews its HR package to ensure compliance with relevant local laws and market practices.

The Group's evaluation systems are based on the use of Key Performance Indicators (KPI) which measure the extent to which an employee's work supports the achievement of key operational objectives and business results. KPI objectives are numerical where possible and enable the Group to objectively assess and compensate employees. Increasing use of KPI based compensation and benefits is a part of the Group's ongoing global salary harmonization and standardization.

In order to retain and motivate key managers, in July 2007, the Group instituted a long-term incentive program based on share options. As part of this program, approximately 180 key employees of the Group received share options vesting in five years so long as employment is maintained. The Group intends to increasingly use share-based bonus and incentive schemes to further link employees compensation to the performance of the Group as reflected in the share price.

SOCIAL RESPONSIBILITY

The Company's social responsibility programs continued to expand, and encompassed charitable activities, environmentally sound operations, supplier certifications, and human resources practices in 2007.

First, as a member of the TCL Group, the Company supported charitable functions and organizations, primarily focusing on education. For the second consecutive year, the Company took part in the "Project Hope College Dreams – Together We Care" project organized by the China Youth Development Foundation. The TCL group of companies and its employees actively raised RMB 0.44 million, thereby enabling approximately 100 students from Huizhou, Guangdong Province, China, to attend college. Since 1996 the total donation from the TCL Group amounted to more than RMB 75 million.

Secondly, the Group systematically seeks to implement environmentally friendly and responsible practices in its operations such as waste removal, water conservation and recycling, energy saving in operations and products, and healthy working environment for employees. In addition to its ISO9000 and ISO14000 certification, in 2006 the Company introduced an internal Corporate Social Responsibility manual, and has strived to enhance its environmentally friendly practices. In 2007, the company recycled 60% of tin waste generated from the production, 100% of rubber, 100% of molding water, and almost 20% of packaging material. In addition, the Company's factories actively implement electricity conservation and have reduced overall energy consumption by 40% since 2006.

The Company's products continued to lead the industry in energy efficiency ratings. As early as 2005, the Company developed LCD40A71 LCD TV – the first product awarded for energy efficiency by the China Environmental Certification Project. Since April 2007, the Company has begun to market a proprietary energy saving technology – Naturalight technology that can reduce the energy consumption of a flat screen display by over 40%. The technology is the "first of its kind in the world and is able to enhance gradation and contrast in image quality" (quoted from the Society for Information Display (USA)).

Human Resources & Social Responsibility

Thirdly, the Company actively undertakes supplier certifications to ensure that its business partners operate responsibly and soundly as corporate citizens. Thus, in January 2007, the Company started to implement its ”Sound Associated Partners” or SAP program. Under the program, the Company provides trainings, investigations, and certifications, as well as overall guidance, to help its suppliers to achieve the desired level of operations. In 2007, for instance, the Company trained over 200 employees of its suppliers, and provided audit assistance to over 37 of its suppliers. Through the program, three of the aforementioned companies received the SAP certification during 2007.

Lastly, the Company actively seeks to ensure healthy work practices and provide a range of employee support programs to support the development of its employees as professionals, individuals and members of society. In the workplace, stringent procedures governing the handling of dangerous goods and substances, involving proper protection for employees, proper ventilation of the factories, and adequate rest time are routine. In addition, a comprehensive system of checks and balances safeguards employees rights in terms of working hours, holiday and leave, and representation through the labor union. The Company also supports an extensive network of social supports such as subsidized housing and dormitories, sports activities, travel and home leave, health insurance, and bereavement.

Going forward, the Company will continue to improve its social responsibility programs in line with its position as a global corporation and industry leader.

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 2007.

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 21 to the financial statements. There was no significant change 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 2007 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 167.

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 168. 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 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision 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

To reflect the management's confidence in the future development of the Group's business and enhance the earnings per share of the Company, the Company repurchased 16,712,000 shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") at an aggregate price of HK$7,422,840 during the year under review. The details of the repurchases of the Company's shares on the Stock Exchange as follows:

	No. of shares repurchased	Price per share		Aggregate cost paid
		Highest	Lowest	
Month/Year		HK$	HK$	HK$
December 2007	16,712,000	0.455	0.430	7,422,840

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 39 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, 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 approximately HK$1,638 million. 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$155,000.

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	8%
– the five largest suppliers combined	24%

Sales	
– the largest customer	12%
– the five largest customers combined	31%

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:

Mr. Li Dongsheng
Mr. Leong Yue Wing (appointed on 1 October 2007)
Mr. Yuan Bing
Mr. Shi Wanwen
Mr. Wang Kangping
Ms. Lu Zhongli

Non-executive director:

Mr. Albert Thomas da Rosa, Junior

Independent non-executive directors:

Mr. Tang Guliang
Mr. Robert Maarten Westerhof
Ms. Wu Shihong (appointed on 30 June 2007)
Mr. Wang Bing (retired on 30 June 2007)

In accordance with article 116 of the Company's articles of association, Mr. Li Dongsheng, Ms. Lu Zhongli, Mr. Wang Kangping and Mr. Robert Maarten Westerhof will retire by rotation and will be eligible for re-election at the forthcoming annual general meeting. All of them, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Mr. Albert Thomas da Rosa, Junior, Mr. Tang Guliang and Ms. Wu Shihong will hold office until the conclusion of the forthcoming annual general meeting. All of them, being eligible, will 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 INDIVIDUALS

Particulars of the emoluments of the directors and the 5 highest-paid individuals during the financial year are set out in note 10 and 11 to the financial statements, respectively.

Report of the Directors

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 27 to 39 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 37 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 18 to 24 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 2007, the interests and short positions of the directors and chief executive in the shares, 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 set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

(i) Long positions in shares of the Company

Directors	Capacity	Number of shares held	Percentage of issued share capital of the Company
Li Dongsheng	Beneficial owner	111,666,579	1.91%
Wang Kangping	Beneficial owner	150,000	0.003%

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

SHARE OPTION SCHEMES

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

Name or category of participant	Number of share options						Date of grant of share options	Exercise price of share options	Exercise period of share options	Price of Company's shares	
	At 1 January 2007	Reclassified during the year	Granted during the year	Adjustment⊕	Lapsed during the year	At 31 December 2007		HK$		At grant date# HK$	At exercise date* HK$
Directors											
Executive directors											
Li Dongsheng	5,000,000	-	-	1,000,000	-	6,000,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	-	-	17,990,028	-	-	17,990,028	4-Jul-07	0.630	Note 2	0.600	N/A
	5,000,000	-	17,990,028	1,000,000	-	23,990,028					
Yuan Bing	330,000	-	-	66,000	-	396,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	-	-	1,820,033	-	-	1,820,033	4-Jul-07	0.630	Note 2	0.600	N/A
	330,000	-	1,820,033	66,000	-	2,216,033					
Shi Wanwen	2,600,000	-	-	520,000	-	3,120,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	-	-	8,858,955	-	-	8,858,955	4-Jul-07	0.630	Note 2	0.600	N/A
	2,600,000	-	8,858,955	520,000	-	11,978,955					
Wang Kangping	1,400,000	-	-	280,000	-	1,680,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
Lu Zhongli	2,500,000	-	-	500,000	-	3,000,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	-	-	1,300,033	-	-	1,300,033	4-Jul-07	0.630	Note 2	0.600	N/A
	2,500,000	-	1,300,033	500,000	-	4,300,033					
	11,830,000	-	29,969,049	2,366,000	-	44,165,049					
Non-Executive directors											
Albert Thomas da Rosa, Junior	300,000	-	-	60,000	-	360,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
Tang Guliang	300,000	-	-	60,000	-	360,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
Wang Bing @	300,000	(300,000)	-	-	-	-	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	900,000	(300,000)	-	120,000	-	720,000					
Other employees and those who have contributed or may contribute to the Group	122,690,000	300,000	-	24,528,000	(22,796,000)	124,722,000	31-May-05	1.167 ⊕	Note 1	1.410	N/A
	-	-	212,654,929	-	(11,721,893)	200,933,036	4-Jul-07	0.630	Note 2	0.600	N/A
	122,690,000	300,000	212,654,929	24,528,000	(34,517,893)	325,655,036					
	135,420,000	-	242,623,978	27,014,000	(34,517,893)	370,540,085					

@ Mr. Wang Bing retired as independent non-executive director of the Company on 30 June 2007.

⊕ Upon the Rights Issue become unconditional, the exercise price of and the number of Shares issuable upon exercise in full of the Outstanding Options will be adjusted with effect from the date on which the Rights Issue becomes unconditional.

The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange of Hong Kong Limited ("Stock Exchange") closing price on the trading day immediately prior to the date of grant of the options.

Note 1

One-third of such share options is 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.

Note 2

One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

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

Directors	Name of capital associated corporation	Capacity	Number of shares held	Percentage of issued share in associated corporation
Li Dongsheng	TCL Corporation	Beneficial owner	97,562,400	3.77%
Li Dongsheng	TCL Communication	Beneficial owner	110,000,800	1.53%
Yuan Bing	TCL Communication	Beneficial owner	2,116,000	0.04%
Shi Wanwen	TCL Corporation	Beneficial owner	1,712,599	0.07%
Wang Kangping	TCL Communication	Beneficial owner	80,000	0.001%
Lu Zhongli	TCL Corporation	Beneficial owner	4,908,179	0.19%

Notes:

1. TCL Corporation is the ultimate controlling shareholder of the Company.

2. 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	Capacity	Number of underlying shares held	Percentage of issued share capital in associated corporation
Li Dongsheng	TCL Communication	Beneficial owner	26,512,050	0.37%
Yuan Bing	TCL Communication	Beneficial owner	4,525,664	0.06%
Shi Wanwen	TCL Communication	Beneficial owner	654,546	0.009%
Wang Kangping	TCL Communication	Beneficial owner	3,027,274	0.04%
Lu Zhongli	TCL Communication	Beneficial owner	7,748,225	0.11%

Save as disclosed above, as at 31 December 2007, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 38 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

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.

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 2007, the interests and short positions of the 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:

(i) Long positions in shares of the Company:

Shareholders	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	2,304,181,933 *(Notes 1& 2)*	39.47%
Deutsche Bank Aktiengesellschaft	Interest of controlled corporation	4,574,614	0.08%

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

Shareholders	Nature of interest	Number of shares held
Deutsche Bank Aktiengesellschaft	Beneficial Owner	2,052,750,000 *(Note 3)*

Notes:

1. TCL Corporation was deemed to be interested in 2,304,181,933 shares held by T.C.L. Industries Holdings (H.K.) Ltd., ("T.C.L. Industries"), its direct wholly owned subsidiary, for the purpose of the SFO.

2. The following Directors are directors/employees of TCL Corporation which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

   (a) Mr. Li Dongsheng is the chairman and president of TCL Corporation;

   (b) Mr. Shi Wanwen is a vice president of TCL Corporation;

   (c) Mr. Yuan Bing is the chief financial officer and a vice president of TCL Corporation.

3. The Company has received from Stark Investments (Hong Kong) Limited and Stark Master Fund, Ltd notices pursuant to s.324 of Part XV of the SFO notifying that they have long position of derivatives interest in 977,500,000 Shares and 578,680,000 Shares respectively, the notice of Stark Investments (Hong Kong) Limited also indicated that it has short position of derivatives interest 97,750,000 Shares.

Save as disclosed above, as at 31 December 2007, 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) (collectively, the "TCL Group"); and

(2) Thomson S.A. ("Thomson'') (being a substantial shareholder of the Company before 29 May 2007) and its subsidiaries (being an associate of Thomson) (collectively, the "Thomson Group"). The shareholding of Thomson in the Company has since 29 May 2007 fallen below 10% and therefore Thomson is regarded as a public Shareholder since then.

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 2007:

(a) On 12 October 2006, the Company, TTE Corporation ("TTE"), a wholly-owned subsidiary of the Company, and TTE Europe SAS ("TTE Europe"), a wholly-owned subsidiary of TTE (collectively the "TCL Parties"), entered into the term sheet (the "Settlement Term Sheet") with Thomson and certain of its subsidiaries (collectively the "Thomson Parties") regarding the resolution of the Group's loss-making European operation (the "EU Business"), which was mainly conducted by TTE Europe, whereby the TCL Parties and the Thomson Parties have agreed to certain reciprocal concessions to alleviate the financial difficulties of the EU Business and pave the way for an amicable winding-down of this loss-making EU Business.

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Resolving and Settlement Agreement (the "Master Agreement") dated 13 February 2007 entered into between the TCL Parties and the Thomson Parties.

Report of the Directors

On 30 April 2007, TTE Europe SAS, while being under a conciliation process supervised by the French Commercial Court, became unable to pay its debts as they became due. Therefore, TTE Europe was required to file a declaration of insolvency within 45 days and such declaration was filed on 24 May 2007. On 29 May 2007 TTE Europe was placed under the control of a judicial liquidator supervised by the French Commercial Court.

(b) On 27 September 2007, TCL King Electrical Appliances (Huizhou) Co. Ltd. ("TCL Huizhou"), a wholly owned subsidiary of the Company entered into two equity transfer agreements with TCL Corporation and T.C.L. Industries respectively to acquire 75% and 25% equity interests in Shenzhen Asic Microelectronics Ltd. ("Asic Microelectronics"). Upon completion of the acquisitions, Asic Microelectronics became a wholly-owned subsidiary of the Company.

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 2007:

(a) Pursuant to the Master Sourcing Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$582,859,000; (ii) purchased overseas materials from TCL Group amounting to HK$1,236,735,000 during the year.

(b) Pursuant to the Master Supply Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from the TCL Group amounting to HK$ 72,189,000; (ii) sold goods to TCL Group amounting to HK$3,653,000 during the year.

(c) Pursuant to the Master Subcontracting Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group paid subcontracting fees amounting to HK$11,810,000 during the year.

(d) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Corporation and its subsidiaries (the "Supplier Group") for the 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$11,721,000 during the year.

The caps for the transactions under Master Overseas Supply Agreement had been revised on 29 January 2007.

(e) Pursuant to the Lease Framework Agreement dated 21 June 2006 entered into between the Company and TCL Corporation, the Group paid rental expenses to TCL Group amounting to HK$8,598,000 during the year.

(f) Pursuant to the Financial Services Framework Agreement dated 27 October 2006 entered into between the Company, TCL Corporation and the Finance Company, the Group paid fees and commissions under the Other Financial Services amounting to HK$223,000 during the year. The maximum outstanding balances of deposits placed by the Group with the Finance Company during the year was HK$108,347,000.

(g) Pursuant to the Master Logistics Service Supply Agreement dated 5 January 2007 entered into between the Company and Shenzhen Speed Distribution Platform Co., Ltd (the "Speed Distribution"), a wholly owned subsidiary of TCL Corporation, the Group may from time to time requests Speed Distribution the provision of certain logistic services. During the year, HK$14,553,000 was paid by the Group to Speed Distribution for all the cost and expenses incurred by Speed Distribution for provision of the logistics services.

(h) Pursuant to the Master Call Centre Services Supply Agreement dated 5 January 2007 entered into between the Company and TCL Corporation, TCL Corporation has agreed to provide the call centre services to the Group. During the year, HK$14,511,000 was paid by the Group to TCL Corporation for all the cost and expenses incurred by TCL Corporation for provision of the call centre services.

(i) Pursuant to the TCL Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TTE appointed TCL Group as one of the only two preferred suppliers for certain components and should give priority to TCL Group for the supply of the components, the Group paid to TCL Group HK$370,832,000 for the purchases of the components.

The caps for the transactions under TCL Preferred Supplier Agreement had been revised on 29 January 2007.

Report of the Directors

(j) 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-sublicensable 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 entered into by the Company with TCL Corporation and Thomson on 30 July 2004.

During the year, no payment has been made by the Group to TCL Corporation as royalties and HK$67,821,000 was paid by the Group to TCL Corporation as reimbursement of branding advertising costs.

The caps for the transactions under TCL Trademark License Agreement had been revised on 29 January 2007.

(k) 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$2,605,000 during the year.

The caps for the transactions under Thomson Preferred Supplier Agreement had been revised on 29 January 2007.

(l) 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 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 amounting to HK$4,883,000 was made by the Group to Thomson and no branding advertising costs reimbursement was made by the Group to Thomson.

The caps for the transactions under Thomson Trademark License Agreement had been revised on 2 August 2005.

(m) 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, during the year, no payment had been made by the Group to TLSA as royalties.

The caps for the transactions under Television Patent Licence Agreement had been revised on 5 January 2007.

(n) On 13 February 2007, TTE entered into the Amendment to the Amended and Restated Agreement (Angers) ("Amended Angers Agreement") which altered the conditions under which Thomson will act as a subcontractor to TTE for the manufacturing of TV products and supply of rework services ("manufacturing and rework services") at the Angers Factory in France. Pursuant to the Amendment, TTE will procure a certain number of hours of manufacturing and rework services from Thomson at a fixed cost of €13 per hour during 2007 and 2008. Subsequent to 31 December 2008, TTE shall not have any further obligation to procure services from the Angers Factory. Additionally, the Amendment fully discharges TTE of any obligation to participate in the reorganization or any costs thereof, of the Angers Factory.

During the year, HK$440,000 was paid by the Group to Thomson for the subcontracting services and no reorganization cost was paid under the Amended Angers Agreement.

(o) TTE entered into the North America Service Agreement on 1 September 2005 with Thomson Inc. (a wholly-owned subsidiary of Thomson) 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$29,134,000 was paid by the Group to Thomson for all the cost and expenses incurred by Thomson for provision of the services.

(p) TTE Technology Inc. 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, no payment was made by the Group to Thomson as service fee.

(q) 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.

(r) 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, no payment was paid by Thomson to the Group as service fee.

(s) TTE entered into Framework Agreement on 10 September 2007 with T&A Mobile Phones International Limited ("T&A"), a wholly owned subsidiary of TCL Communication under which TTE Group agrees (i) to procure the materials from T&A, (ii) to manufacture, assemble and/ or test mobile phone products, as well as provide services for pre-production and production ramp-up and to deliver the products to T&A and (iii) to sell the products to T&A at the price agreed between the parties in accordance with the terms of the agreement. During the year, the material purchased from T&A amounting to HK$40,142,000 while the products sold to T&A amounting to HK$25,081,000.

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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events of the Group are set out in note 47 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 27 to 39 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. 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 2007.

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 two independent non-executive directors and one non-executive director of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

Li Dongsheng
Chairman

Hong Kong
13 March 2008

Independent Auditors' Report

ERNST & YOUNG

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

We have audited the financial statements of TCL Multimedia Technology Holdings Limited set out on pages 59 to 167, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

13 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CONTINUING OPERATIONS			
TURNOVER	6	**21,294,104**	29,186,823
Cost of sales		**(17,727,588)**	(24,690,655)
Gross profit		**3,566,516**	4,496,168
Other revenue and gains		**229,333**	170,405
Selling and distribution costs		**(2,857,109)**	(4,338,220)
Administrative expenses		**(889,789)**	(1,135,545)
Research and development costs		**(139,046)**	(383,567)
Other operating expenses		**(98,728)**	(245,928)
		(188,823)	(1,436,687)
Costs in connection with the restructuring and winding-down of the EU Business, net	7	**17,974**	(694,868)
Finance costs	8	**(269,613)**	(245,622)
Share of profits and losses of:			
Jointly-controlled entities		**(3,925)**	3,589
Associates		**1,707**	(70)
		(442,680)	(2,373,658)
Fair value gain on the derivative component of convertible bonds	35	**241,417**	–
Fair value loss of financial assets at fair value through profit or loss		**–**	(37,653)
LOSS BEFORE TAX	9	**(201,263)**	(2,411,311)
Tax	12	**(51,916)**	(96,523)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(253,179)**	(2,507,834)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	14	**–**	7,362
LOSS FOR THE YEAR		**(253,179)**	(2,500,472)

Consolidated Income Statement

Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
Attributable to:			
Equity holders of the parent	13	**(262,016)**	(2,497,314)
Minority interests		**8,837**	(3,158)
		(253,179)	(2,500,472)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic			
– For loss for the year		**HK(5.13) cents**	HK(55.99) cents
– For loss from continuing operations		**HK(5.13) cents**	HK(56.15) cents
Diluted			
– For loss for the year		**HK(5.94) cents**	N/A
– For loss from continuing operations		**HK(5.94) cents**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**1,667,073**	1,993,791
Prepaid land lease payments	18	**75,539**	86,318
Goodwill	19	**119,638**	119,638
Other intangible assets	20	**42,532**	67,784
Interests in jointly-controlled entities	22	**115,571**	110,444
Interests in associates	23	**78,595**	69,566
Available-for-sale investments	24	**1,008**	2,325
Prepaid royalty	25	**189,235**	269,596
Deferred tax assets	36	**16,852**	20,678
Total non-current assets		**2,306,043**	2,740,140
CURRENT ASSETS			
Inventories	26	**3,229,362**	3,206,919
Trade receivables	27	**2,734,187**	3,098,375
Bills receivable		**613,408**	496,755
Other receivables	29	**786,336**	926,925
Tax recoverable		**15,196**	23,257
Pledged deposits	30	**–**	10,000
Cash and bank balances	30	**1,095,341**	1,894,633
Total current assets		**8,473,830**	9,656,864
CURRENT LIABILITIES			
Trade payables	31	**4,136,749**	4,238,563
Bills payable		**272,988**	403,752
Tax payable		**95,963**	111,124
Other payables and accruals	32	**1,483,901**	2,099,535
Provisions	33	**349,914**	805,328
Interest-bearing bank and other borrowings	34	**913,525**	2,660,582
Due to TCL Corporation	28	**220,359**	347,999
Total current liabilities		**7,473,399**	10,666,883
NET CURRENT ASSETS/(LIABILITIES)		**1,000,431**	(1,010,019)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,306,474**	1,730,121

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,306,474**	1,730,121
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	34	**131,041**	–
Liability component of convertible bonds	35	**506,698**	–
Derivative component of convertible bonds	35	**374,514**	–
Deferred tax liabilities	36	**13,772**	21,908
Pensions and other post-employment benefits	37	**16,875**	18,171
Total non-current liabilities		**1,042,900**	40,079
Net assets		**2,263,574**	1,690,042
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	38	**583,772**	390,295
Reserves	39	**1,575,284**	1,210,871
		2,159,056	1,601,166
Minority interests		**104,518**	88,876
Total equity		**2,263,574**	1,690,042

Li Dongsheng
Director

Yuan Bing
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Total equity at 1 January		**1,690,042**	4,098,992
Issue of shares	38	**780,591**	–
Shares repurchased	38	**(7,481)**	–
Share issuance expenses	38	**(7,521)**	–
Disposal of subsidiaries	39	**–**	(19,907)
Equity-settled share option arrangements	39	**19,743**	22,295
		2,475,374	4,101,380
Total income and expense recognised directly in equity:			
Exchange differences on translation of the financial statements of foreign entities	39	**41,379**	89,134
Loss for the year	39	**(253,179)**	(2,500,472)
Total income and expense for the year		**(211,800)**	(2,411,338)
Total equity at 31 December		**2,263,574**	1,690,042
Total income and expense for the year:			
Attributable to:			
Equity holders of the parent		**(227,442)**	(2,411,645)
Minority interests		**15,642**	307
		(211,800)	(2,411,338)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**(201,263)**	(2,411,311)
From a discontinued operation	14	**–**	7,362
Adjustments for:			
Finance costs	8	**269,613**	246,387
Share of profits and losses of jointly-controlled entities and associates		**2,218**	(3,519)
Depreciation	9	**245,746**	408,091
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net	9	**(18,672)**	11,562
Bank interest income	9	**(19,759)**	(25,345)
Fair value loss of financial assets at fair value through profit or loss		**–**	37,653
Fair value gain on derivative component of convertible bonds		**(241,417)**	–
Impairment of available-for-sale investments	9	**–**	2,550
Impairment of items of property, plant and equipment	9	**7,851**	37,315
Impairment of other intangible assets	9	**36,640**	–
Costs in connection with the restructuring and winding-down of the EU Business, net	7	**(17,974)**	694,868
Gain on disposal of financial assets at fair value through profit or loss	9	**–**	(3,179)
Amortisation of other intangible assets	9	**4,183**	6,464
Amortisation of prepaid land lease payments	9	**2,842**	2,543
Equity-settled share option expense	9	**19,743**	22,295
Excess over the cost of a business combination	9	**(981)**	–
		88,770	(966,264)
Decrease in inventories		**193,309**	1,149,668
Decrease in trade receivables		**444,088**	1,783,962
Decrease/(increase) in bills receivable		**(82,941)**	288,711
Decrease in other receivables		**159,148**	731,926
Decrease in trade payables		**(268,247)**	(1,282,726)
Decrease in bills payable		**(157,824)**	(574,788)
Increase/(decrease) in other payables and accruals		**(625,725)**	141,341
Increase/(decrease) in provisions		**(374,414)**	27,417
Decrease in pensions and other post-employment benefits		**(1,873)**	(2,571)
Cash generated from/(used in) operations		**(625,709)**	1,296,676
Interest paid		**(204,704)**	(246,387)
Income taxes paid		**(63,424)**	(124,307)
Net cash inflow/(outflow) from operating activities		**(893,837)**	925,982

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		**(893,837)**	925,982
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	17	**(128,028)**	(225,336)
Prepayment of land lease payments	18	**(11,908)**	(25,195)
Purchases of available-for-sale investments		**(1,008)**	(1,949)
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		**364,246**	173,403
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	13,120
Proceeds from disposal of other intangible assets		**16,624**	–
Disposal of subsidiaries	40(c)	**–**	357,698
Deconsolidation of subsidiaries	40(d)	**(228,338)**	(1,524)
Decrease in pledged deposits		**10,000**	80,165
Acquisition of a subsidiary	40(b)	**(20,026)**	–
Investment in an associate		**–**	(69,074)
Interest received		**19,759**	25,345
Dividends received from jointly-controlled entities		**–**	5,657
Net cash inflow from investing activities		**21,321**	332,310
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	38	**780,591**	–
Share issuance expenses	38	**(7,521)**	–
Repurchase of shares	38	**(7,481)**	–
Proceeds from issue of convertible bonds		**1,060,785**	–
New bank and other loans		**6,274,232**	8,642,512
Repayment of bank loans		**(7,889,161)**	(9,284,566)
Decrease in loans from TCL Corporation		**(150,988)**	(452,561)
Loan from Thomson		**–**	161,203
Repayment of a loan from Thomson		**–**	(256,601)
Net cash inflow/(outflow) from financing activities		**60,457**	(1,190,013)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(812,059)**	68,279
Cash and cash equivalents at beginning of year		**1,841,585**	1,720,490
Effect of foreign exchange rate changes, net		**65,815**	52,816
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,095,341**	1,841,585
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	30	**1,095,341**	1,894,633
Bank overdrafts	34	**–**	(53,048)
		1,095,341	1,841,585

Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**1,165,196**	1,157,217
CURRENT ASSETS			
Due from subsidiaries	21	**1,986,424**	1,460,514
Other receivables	29	**2,954**	3,013
Cash and bank balances	30	**412**	5,041
Total current assets		**1,989,790**	1,468,568
CURRENT LIABILITIES			
Tax payable		**5,828**	5,828
Other payables and accruals	32	**45,554**	55,404
Interest-bearing bank and other borrowings	34	**–**	1,151,377
Total current liabilities		**51,382**	1,212,609
NET CURRENT ASSETS		**1,938,408**	255,959
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,103,604**	1,413,176
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	35	**506,698**	–
Derivative component of convertible bonds	35	**374,514**	–
Total non-current liabilities		**881,212**	–
Net assets		**2,222,392**	1,413,176
EQUITY			
Issued capital	38	**583,772**	390,295
Reserves	39	**1,638,620**	1,022,881
Total equity		**2,222,392**	1,413,176

Li Dongsheng
Director

Yuan Bing
Director

Notes to Financial Statements

31 December 2007

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were 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

2. BASIS OF PRESENTATION

Wind-down and liquidation of TTE Europe SAS ("TTE Europe") and its subsidiaries (collectively the "EU Group")

Liquidation basis of accounting

As a result of the Group's decision to significantly wind down the loss-making European operation (the "EU Business") in October 2006 and the filing of a declaration of insolvency to the French court by TTE Europe on 24 May 2007, the liquidation basis of accounting has been adopted for the financial statements of the EU Group for the period from 1 January to 29 May 2007 and the year ended 31 December 2006.

Under the liquidation basis of accounting, assets are stated at their estimated net realisable values, and liabilities are stated at their estimated settlement amounts, and the relevant estimates will be periodically reviewed and adjusted as appropriate. Assets and liabilities included in the financial statements of the EU Group are stated on the following bases:

- Items of property, plant and equipment and inventories are reflected at net realisable values which are based on the expected net sales proceeds to be received from the scrap sales of these assets;

- Trade receivables and other receivables are stated at their recoverable amounts, which are the estimated net cash proceeds to be received from the debtors;

- Cash and bank balances are presented at face value; and

- Trade payables, other payables, accruals and provisions are stated at estimated settlement amounts.

2. BASIS OF PRESENTATION (continued)

Adjustments to the liquidation basis of accounting

The EU Group accrued approximately HK$147 million as at 31 December 2006 in respect of costs and expenses expected to be incurred for the remaining wind-down activities. These costs and expenses include salaries and benefits for employees retained to assist with the wind-down activities, legal, accounting and professional fees, as well as other administrative expenses anticipated to be incurred during the wind-down period of the EU Group before liquidation.

In accordance with the liquidation basis of accounting, the Group recorded an adjustment of approximately HK$181 million to adjust liabilities of the EU Group to estimated settlement amounts as at 31 December 2006.

Further details of the costs relating to the wind-down and liquidation of the EU Group are set out in note 7 to the financial statements.

The preparation of the financial statements of the EU Group using the liquidation basis of accounting requires the Group to make assumptions, judgements and estimates that can have a significant impact on the assets and liabilities of the EU Group. Management bases its assumptions, judgements and estimates on the most recent information available and various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, management evaluates its assumptions, judgements and estimates and makes changes accordingly.

Upon the filing of the declaration of insolvency to the French court on 24 May 2007 by TTE Europe, the French court appointed a judicial liquidator (the "Liquidator") to take control over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person responsible for winding-up TTE Europe by liquidating its assets and making payment to its creditors. The Group deconsolidated the EU Group on 29 May 2007 from the Group's financial statements for the year ended 31 December 2007.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 the derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

3.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries 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 a subsidiary 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 identifiable 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 not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

3.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

3.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 46 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option schemes, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3.3 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.

HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset,Minimum Funding Requirements and their Interaction*[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation is unlikely to have any financial impact on the Group.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award credits, HK(IFRIC)-Int 13 is not applicable to the Group and therefore unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group's defined benefit schemes are unfunded, the interpretation is unlikely to have any financial impact on the Group.

3.4 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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 associates, 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.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates 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.

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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Goodwill previously eliminated against consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in the 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

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 income statement.

Impairment of non-financial assets other than goodwill

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 in those expense categories consistent with the function of the impaired asset, 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.

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 and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an associate;

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

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

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

(f) 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 (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 depreciation methods 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.

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Patents and licences

Purchased patents and licences 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 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.

Operating 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 leases 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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, that is, the date that the Group commits to purchase or sell 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 at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

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 subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments".

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 within 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.

Impairment of financial assets

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 the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 by adjusting the allowance account. 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.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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 them 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 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.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and other payables, amounts due to TCL Corporation, interest-bearing bank and other borrowings and liability component of convertible bonds are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" on the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Convertible bonds

Convertible bonds which are issued with embedded derivative features are split into a liability component and a derivative component and are accounted for as follows:

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement. The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as considerations for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the total carrying amount of the liability and derivative components is recognised in the income statement.

Derecognition of financial liabilities

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

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 the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

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 the income statement.

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.

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 that are readily convertible into known amounts of cash, 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.

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.

3.4 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, associates 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, associates 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Government grants

Government grants are recognised at their fair values 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 estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) income 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme 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, further details of which are given in note 38 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than 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 to 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 at the beginning and end of that period. The equity amount is recognised in the share option reserve until either the option is exercised (where it is transferred to the share premium account) or the option expires/lapses (where it is released directly to retained profits).

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 satisfied, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 by 1 January 2005 and to those granted on or after 1 January 2005.

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 those 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 or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dates 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 the income statement. 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.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities and associates 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 the 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In addition to the judgements and estimates made by the Group in applying the liquidation basis of accounting for the EU Group in note 2 to the financial statements and 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 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. 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 assets 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 amounts of goodwill and intangible assets with indefinite useful lives at 31 December 2007 were HK$119,638,000 (2006: HK$119,638,000) and HK$19,958,000 (2006: HK$56,598,000), respectively. Further details are given in notes 19 and 20 to the financial statements, respectively.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) Useful lives and impairment of property, plant and equipment

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

(iii) 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 on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iv) Provision against obsolete and slow-moving inventories

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete and slow-moving items. Management reassesses the estimation on each balance sheet date.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

(v) Warranty provisions

As further explained in note 33, 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair value of the share options granted and financial instruments is disclosed in notes 37, 38 and 46, respectively.

5. 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 (discontinued during the prior year);

(c) the home networking segment (renamed from "audio-visual" for current year's presentation) 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.

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group

	Continuing operations										Discontinued operation			
	Television		Home Networking		Others		Eliminations		Total		Computer		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenue:														
Sales to external customers	**17,867,130**	26,368,102	**3,000,836**	2,224,068	**426,138**	594,653	**-**	–	**21,294,104**	29,186,823	**-**	1,568,162	**21,294,104**	30,754,985
Intersegment sales	**1,283,250**	1,234,744	**38,217**	417,992	**10,894**	4,705	**(1,332,361)**	(1,657,441)	**-**	–	**-**	–	**-**	–
Total	**19,150,380**	27,602,846	**3,039,053**	2,642,060	**437,032**	599,358	**(1,332,361)**	(1,657,441)	**21,294,104**	29,186,823	**-**	1,568,162	**21,294,104**	30,754,985
Segment results	**(60,273)**	(1,220,459)	**95,722**	17,589	**(63,977)**	(87,516)	**-**	–	**(28,528)**	(1,290,386)	**-**	5,501	**(28,528)**	(1,284,885)
Bank interest income									**19,759**	22,719	**-**	2,626	**19,759**	25,345
Corporate expenses									**(180,054)**	(169,020)	**-**	–	**(180,054)**	(169,020)
Finance costs									**(269,613)**	(245,622)	**-**	(765)	**(269,613)**	(246,387)
Share of profits and losses of:														
Jointly-controlled entities	**(3,925)**	3,016	**-**	–	**-**	573	**-**	–	**(3,925)**	3,589	**-**	–	**(3,925)**	3,589
Associates	**(635)**	–	**-**	–	**2,342**	(70)	**-**	–	**1,707**	(70)	**-**	–	**1,707**	(70)
Costs in connection with the restructuring and winding-down of the EU business, net	**17,974**	(694,868)	**-**	–	**-**	–	**-**	–	**17,974**	(694,868)	**-**	–	**17,974**	(694,868)
									(442,680)	(2,373,658)	**-**	7,362	**(442,680)**	(2,366,296)
Fair value gain on the derivative component of convertible bonds	**-**	–	**-**	–	**241,417**	–	**-**	–	**241,417**	–	**-**	–	**241,417**	–
Fair value loss of financial assets at fair value through profit or loss	**-**	–	**-**	–	**-**	(37,653)	**-**	–	**-**	(37,653)	**-**	–	**-**	(37,653)
Profit/(loss) before tax									**(201,263)**	(2,411,311)	**-**	7,362	**(201,263)**	(2,403,949)
Tax									**(51,916)**	(96,523)	**-**	–	**(51,916)**	(96,523)
Profit/(loss) for the year									**(253,179)**	(2,507,834)	**-**	7,362	**(253,179)**	(2,500,472)
Assets and liabilities														
Segment assets	**10,719,483**	12,091,212	**1,066,871**	721,980	**128,891**	212,571	**(2,466,017)**	(2,830,198)	**9,449,228**	10,195,565	**-**	–	**9,449,228**	10,195,565
Interests in jointly-controlled entities	**115,571**	110,444	**-**	–	**-**	–	**-**	–	**115,571**	110,444	**-**	–	**115,571**	110,444
Interests in associates	**2,153**	–	**-**	–	**76,442**	69,566	**-**	–	**78,595**	69,566	**-**	–	**78,595**	69,566
Unallocated assets									**1,136,479**	1,968,381	**-**	–	**1,136,479**	1,968,381
Bank overdrafts included in segment assets	**-**	53,048	**-**	–	**-**	–	**-**	–	**-**	53,048	**-**	–	**-**	53,048
Total assets									**10,779,873**	12,397,004	**-**	–	**10,779,873**	12,397,004
Segment liabilities	**10,007,504**	11,426,525	**496,674**	349,733	**463,076**	581,039	**(4,558,454)**	(4,531,505)	**6,408,800**	7,825,792	**-**	–	**6,408,800**	7,825,792
Unallocated liabilities									**2,107,499**	2,828,122	**-**	–	**2,107,499**	2,828,122
Bank overdrafts included in segment assets	**-**	53,048	**-**	–	**-**	–	**-**	–	**-**	53,048	**-**	–	**-**	53,048
Total liabilities									**8,516,299**	10,706,962	**-**	–	**8,516,299**	10,706,962
Other segment information:														
Depreciation and amortisation	**238,411**	381,925	**5,278**	14,940	**9,082**	17,243	**-**	–	**252,771**	414,108	**-**	2,990	**252,771**	417,098
Impairment and fair value losses recognised in the income statement	**7,851**	39,865	**-**	–	**36,640**	37,653	**-**	–	**44,491**	77,518	**-**	–	**44,491**	77,518
Costs in connection with the restructuring and winding-down of the EU Business, net	**(17,974)**	694,868	**-**	–	**-**	–	**-**	–	**(17,974)**	694,868	**-**	–	**(17,974)**	694,868
Capital expenditure	**110,624**	194,214	**13,284**	17,129	**19,118**	12,411	**-**	–	**143,026**	223,754	**-**	1,582	**143,026**	225,336
Excess over the cost of a business combination	**-**	–	**-**	–	**(981)**	–	**-**	–	**(981)**	–	**-**	–	**(981)**	–

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	Mainland China		Europe		North America		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**10,401,959**	12,224,685	**875,145**	3,879,008	**3,645,785**	6,553,278	**6,371,215**	8,098,014	**21,294,104**	30,754,985
Attributable to a discontinued operation	**–**	(1,568,162)	**–**	–	**–**	–	**–**	–	**–**	(1,568,162)
Revenue from continuing operations	**10,401,959**	10,656,523	**875,145**	3,879,008	**3,645,785**	6,553,278	**6,371,215**	8,098,014	**21,294,104**	29,186,823
Other segment information:										
Segment assets	**4,734,178**	4,634,824	**714,269**	724,580	**1,968,670**	2,179,171	**2,032,111**	2,656,990	**9,449,228**	10,195,565
Capital expenditure	**70,522**	96,681	**13,229**	38,593	**39,750**	74,724	**19,525**	15,338	**143,026**	225,336

6. TURNOVER

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

7. COSTS IN CONNECTION WITH THE RESTRUCTURING AND WINDING-DOWN OF THE EU BUSINESS, NET

In 2006, the Group had implemented a number of measures in restructuring the EU Business and finally, decided to restructure and reposition its presence in Europe by significantly winding down the EU Business and building up a new business model. The costs incurred and accrued and the gains arose in connection with the restructuring and winding-down of the EU Business for the two years ended 31 December 2007 were summarised below:

	Group	
	2007	2006
	HK$'000	HK$'000
Redundancy costs and severance payments	**–**	339,011
Estimated costs for the winding-down of TTE Europe	**–**	146,541
Impairment of items of property, plant and equipment	**–**	96,050
Impairment of other intangible assets	**–**	19,137
Impairment of trade and other receivables	**–**	124,853
Write-down of inventories to net realisable value	**–**	249,627
Adjustment to adjust liabilities of the EU Group to their estimated settlement amounts	**–**	(181,014)
Net gain arising from the Settlement Term Sheet	**–**	(87,211)
Gain on deconsolidation of subsidiaries (note 40(d))	**(1,350)**	(12,126)
Gain on disposal of other intangible assets	**(16,624)**	–
	(17,974)	694,868

8. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on:		
Bank loans and overdrafts	**161,208**	197,900
Other loans wholly repayable within five years	**3,363**	11,595
Liability component of convertible bonds (note 35)	**68,456**	–
Loan from Thomson	**–**	17,432
Loan from TCL Corporation	**8,489**	18,869
Loans from an associate	**8,615**	591
	250,131	246,387
Other finance costs:		
Transaction costs related to the derivative component of convertible bonds	**19,482**	–
	269,613	246,387
Attributable to:		
A discontinued operation (note 14)	**–**	765
Continuing operations reported in the consolidated income statement	**269,613**	245,622
	269,613	246,387

9. LOSS BEFORE TAX

In addition to the amounts disclosed in note 7 to the financial statements, the Group's loss before tax is arrived at after charging/(crediting):[#]

	Group	
	2007	2006
	HK$'000	HK$'000
Cost of inventories sold	**17,713,329**	26,117,573
Depreciation (note 17)	**245,746**	408,091
Research and development costs	**245,542**	392,424
Less: Government grants released*	**(106,496)**	(7,579)
Net research and development costs	**139,046**	384,845
Amortisation of other intangible assets (note 20)**	**4,183**	6,464
Minimum lease payments under operating leases in respect of land and buildings	**98,698**	66,033
Amortisation of prepaid land lease payments (note 18)	**2,842**	2,543
Auditors' remuneration	**17,704**	20,494
Employee benefits expense (including directors' remuneration – note 10):		
Wages and salaries	**1,109,918**	1,529,690
Defined contribution expense	**79,752**	91,166
Defined benefit expense (note 37)	**7,151**	28,070
Equity-settled share option expense (note 39)	**19,743**	22,295
	1,216,564	1,671,221
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net	**(18,672)**	11,562
Gain on disposal of financial assets at fair value through profit or loss	**–**	(3,179)
Impairment of items of property, plant and equipment***	**7,851**	37,315
Impairment of other intangible assets***	**36,640**	–
Impairment of available-for-sale investments	**–**	2,550
Impairment of trade receivables***	**20,787**	191,365
Foreign exchange gains, net	**(87,812)**	(26,580)
Net rental income	**(5,095)**	(11,860)
Bank interest income	**(19,759)**	(25,345)
Restructuring costs (note 33)	**33,450**	22,284
Provision for warranties (note 33)	**381,634**	698,334
Reversal of write-down of inventories to net realisable value	**(24,036)**	(954)
Excess over the cost of a business combination (note 40(b))****	**(981)**	–

9. LOSS BEFORE TAX (continued)

The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

* Certain government grants have been received for research activities within the Guangdong Province, the People's Republic of China (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 impairment of items of property, plant and equipment, the impairment of other intangible assets and the impairment of trade receivables are included in "Other operating expenses" on the face of the consolidated income statement.

**** The excess over the cost of a business combination is included in "Other revenue and gains" on the face of the consolidated income statement.

10. 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	
	2007	2006
	HK$'000	HK$'000
Fees	**900**	1,088
Other emoluments:		
Salaries, allowances and benefits in kind	**4,477**	3,912
Discretionary performance related bonuses	**3,937**	4,183
Employee share option benefits	**2,478**	3,652
Pension scheme contributions	**165**	138
	11,057	11,885
	11,957	12,973

10. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

	2007 Fees HK$'000	2007 Employee share option benefits HK$'000	2007 Total HK$'000	2006 Fees HK$'000	2006 Employee share option benefits HK$'000	2006 Total HK$'000
Mr. Tang Guliang	225	10	235	225	49	274
Mr. Wang Bing	112	10	122	225	49	274
Dr. Hon Fongming, Perry	–	–	–	63	49	112
Mr. Robert Maarten Westerhof	150	–	150	50	–	50
Ms. Wu Shihong	112	–	112	–	–	–
	599	20	619	563	147	710

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	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
2007						
Executive directors:						
Mr. Li Dongsheng	–	1,397	2,060	1,396	35	4,888
Mr. Leong Yue Wing	–	1,953	847	–	90	2,890
Mr. Yuan Bing	–	78	–	135	–	213
Mr. Shi Wanwen	–	659	1,030	692	40	2,421
Mr. Wang Kangping	–	–	–	49	–	49
Ms. Lu Zhongli	–	390	–	176	–	566
	–	4,477	3,937	2,448	165	11,027
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	–	–	10	–	235
Mr. Alastair Kenneth Ruskin Campbell	38	–	–	–	–	38
Mr. Didier Trutt	38	–	–	–	–	38
	301	4,477	3,937	2,458	165	11,338

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006						
Executive directors:						
Mr. Li Dongsheng	–	1,064	–	825	20	1,909
Mr. Yuan Bing	–	116	–	54	–	170
Mr. Shi Wanwen	–	641	1,132	428	28	2,229
Mr. Wang Kangping	–	–	–	230	–	230
Ms. Lu Zhongli	–	390	–	412	–	802
Mr. Hu Qiusheng	–	489	–	412	15	916
Mr. Yan Yong, Vincent	–	1,073	3,051	568	65	4,757
Mr. Zhao Zhongyao	–	139	–	527	10	676
	–	3,912	4,183	3,456	138	11,689
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	–	–	49	–	274
Mr. Alastair Kenneth Ruskin Campbell	150	–	–	–	–	150
Mr. Didier Trutt	150	–	–	–	–	150
	525	3,912	4,183	3,505	138	12,263

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2006: one) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2006: four) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**13,456**	9,362
Discretionary performance related bonuses	**2,451**	5,812
Pension scheme contributions	**2,427**	1,288
Compensation for the loss of office	**–**	2,944
	18,334	19,406

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

	Number of employees	
	2007	2006
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	2
HK$4,000,001 to HK$4,500,000	**1**	–
More than HK$4,500,001	**2**	1
	4	4

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 **HK$'000**	2006 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**14,909**	16,662
Overprovision in prior years	**–**	(1,712)
Current – Elsewhere		
Charge for the year	**60,790**	80,333
Underprovision/(overprovision) in prior years	**(20,577)**	2,437
Deferred (note 36)	**(3,206)**	(1,197)
Total tax charge for the year	**51,916**	96,523

12. TAX (continued)

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

	2007	2006
	HK$'000	HK$'000
Loss before tax (including profit before tax from a discontinued operation)	**(201,263)**	(2,403,949)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**(61,693)**	(514,621)
Lower tax rates for specific provinces or local authority	**(139,899)**	(130,737)
Adjustments in respect of current tax of previous periods	**(20,577)**	725
Profits and losses attributable to jointly-controlled entities and associates	**92**	(1,944)
Income not subject to tax	**(65,976)**	(18,928)
Expenses not deductible for tax	**135,916**	80,652
Tax losses not recognised	**233,192**	697,641
Tax losses utilised from previous periods	**(28,624)**	(18,161)
Others	**(515)**	1,896
Tax charge at the Group's effective rate	**51,916**	96,523
Represented by:		
Tax charge attributable to continuing operations reported in the consolidated income statement	**51,916**	96,523

The share of tax attributable to jointly-controlled entities and associates amounting to HK$4,000 (2006: HK$783,000) and HK$635,000 (2006: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" 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, jointly-controlled entities and associates enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities and associates are subject to income taxes at tax rates ranging from 15% to 33%.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of HK$23,884,000 (2006: loss of HK$2,700,095,000) which has been dealt with in the financial statements of the Company (note 39).

14. DISCONTINUED OPERATION

On 21 June 2006, the Company and T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries") entered into a sale and purchase agreement and pursuant to which the Company, inter alia, disposed of its entire interest in TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology") to T.C.L. Industries for a consideration of HK$283 million. Computer Technology and its subsidiaries are principally engaged in the manufacture and sale of computer related products and represent a separate business segment, the Computer segment, of the Group that is part of the operations in the Mainland China. The disposal was completed on 8 September 2006.

The results of the Computer segment for the period from 1 January to 8 September 2006 are presented below:

	2006 HK$'000
Turnover	1,568,162
Other revenue	12,357
Expenses	(1,572,392)
Finance costs	(765)
Profit before tax from the discontinued operation	7,362
Tax	–
Profit for the year from the discontinued operation	7,362

14. DISCONTINUED OPERATION (continued)

The net cash flows incurred by the Computer segment are as follows:

	2006 HK$'000
Operating activities	(184,904)
Investing activities	75,440
Financing activities	243,708
Net cash inflow	134,244
Earnings per share:	
Basic, from the discontinued operation (restated)	HK0.17 cents*
Diluted, from the discontinued operation	N/A

The calculation of basic earnings per share from the discontinued operation is based on:

	2006 HK$'000
Earnings	
Profit attributable to ordinary equity holders of the parent from the discontinued operation	7,362

	Number of shares 2006 (Restated)
Shares	
Weighted average number of ordinary shares in issue during the year	4,460,516,259*

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 (note 38) to reflect the bonus element inherent in the rights issue.

Diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

15. DIVIDENDS

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

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

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

	2007 HK$'000	2006 HK$'000
Loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:		
From continuing operations	**(262,016)**	(2,504,676)
From a discontinued operation	**–**	7,362
	(262,016)	(2,497,314)
Interest on convertible bonds	**68,456**	–
Transaction costs related to the derivative component of convertible bonds	**19,482**	–
Less: Fair value gain on the derivative component of convertible bonds	**(241,417)**	–
Loss for the purpose of diluted loss per share calculation	**(415,495)**	(2,497,314)
Attributable to:		
Continuing operations	**(415,495)**	(2,504,676)
Discontinued operation	**–**	7,362
	(415,495)	(2,497,314)

16. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	2007	2006 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	**5,108,197,980**	4,460,516,259*
Effect of dilution – weighted average number of ordinary shares:		
Deemed conversion of all convertible bonds	**1,889,437,059**	–
Weighted average number of ordinary shares used in diluted loss per share calculation	**6,997,635,039**	4,460,516,259*

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 (note 38) to reflect the bonus element inherent in the rights issue.

The share options outstanding during the two years ended 31 December 2007 had an anti-dilutive effect on the basic loss per share and were therefore, ignored in the calculation of diluted loss per share.

Diluted loss per share amount for the year ended 31 December 2006 had not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'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 2007							
At 1 January 2007:							
Cost	1,341,218	101,649	1,458,552	353,801	61,939	53,874	3,371,033
Accumulated depreciation and impairment	(204,292)	(37,604)	(851,397)	(235,514)	(35,963)	(12,472)	(1,377,242)
Net carrying amount	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
At 1 January 2007, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
Additions	27,455	9,279	22,465	27,686	5,422	35,721	128,028
Disposals	(252,693)	(13,698)	(26,582)	(16,032)	(1,306)	(9,266)	(319,577)
Acquisition of a subsidiary (note 40(b))	–	–	146	33	377	–	556
Deconsolidation of subsidiaries (note 40(d))	–	(1)	(23)	(14)	–	–	(38)
Depreciation provided during the year	(47,040)	(23,099)	(109,532)	(58,720)	(7,355)	–	(245,746)
Impairment	–	–	(5,454)	(2,397)	–	–	(7,851)
Transfers	–	35	28,094	32,051	–	(60,180)	–
Exchange realignment	70,758	3,677	28,894	12,694	1,477	410	117,910
At 31 December 2007, net of accumulated depreciation and impairment	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
At 31 December 2007:							
Cost	1,171,232	90,408	1,318,908	381,006	61,456	20,559	3,043,569
Accumulated depreciation and impairment	(235,826)	(50,170)	(773,745)	(267,418)	(36,865)	(12,472)	(1,376,496)
Net carrying amount	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073

17. 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
31 December 2006							
At 1 January 2006:							
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
At 1 January 2006, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
Additions	7,289	9,429	62,383	78,679	5,015	62,541	225,336
Disposals	(25,270)	(6,333)	(45,049)	(70,619)	(1,543)	(36,151)	(184,965)
Disposal of subsidiaries (note 40(c))	(283,939)	–	(1,145)	(16,201)	(1,979)	–	(303,264)
Deconsolidation of a subsidiary (note 40(d))	–	–	(4,052)	(1,104)	–	–	(5,156)
Depreciation provided during the year	(59,090)	(14,217)	(227,704)	(99,137)	(7,943)	–	(408,091)
Impairment	–	(21)	(99,681)	(21,663)	–	(12,000)	(133,365)
Transfers	21,148	–	77,018	17,976	–	(116,142)	–
Exchange realignment	40,131	1,956	22,526	11,666	829	3,766	80,874
At 31 December 2006, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
At 31 December 2006:							
Cost	1,341,218	101,649	1,458,552	353,801	61,939	53,874	3,371,033
Accumulated depreciation and impairment	(204,292)	(37,604)	(851,397)	(235,514)	(35,963)	(12,472)	(1,377,242)
Net carrying amount	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings are situated outside of Hong Kong and held under the following lease terms:

	2007 HK$'000	2006 HK$'000
Freehold	451,884	438,022
Short term leases	115,923	115,641
Medium term leases	603,425	787,555
	1,171,232	1,341,218

At 31 December 2006, certain of the Group's buildings with a net book value of HK$92,834,000 were pledged to secure general banking facilities granted to a subsidiary of the Company (note 34). Due to the expiry of the relevant banking facilities and the repayment of all relevant borrowings during the year, all the above pledges were released.

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2007 HK$'000	2006 HK$'000
Carrying amount at 1 January	88,581	68,063
Additions	11,908	25,195
Disposals	(25,997)	–
Amortised during the year	(2,842)	(2,543)
Disposal of subsidiaries (note 40(c))	–	(4,836)
Exchange realignment	5,681	2,702
Carrying amount at 31 December	77,331	88,581
Current portion included in other receivables (note 29)	(1,792)	(2,263)
Non-current portion	75,539	86,318

18. PREPAID LAND LEASE PAYMENTS (continued)

The Group's leasehold land is situated in the PRC and held under the following lease terms:

	2007	2006
	HK$'000	HK$'000
Short term leases	**16,126**	22,634
Medium term leases	**61,205**	65,947
	77,331	88,581

19. GOODWILL

Group	HK$'000
Cost and carrying amount at 1 January 2006	206,639
Cost and carrying amount at 1 January 2006	206,639
Acquisition of minority interests (note 40(a))	63,138
Disposal of subsidiaries (note 40(c))	(150,139)
Cost and carrying amount at 31 December 2006, 1 January 2007 and 31 December 2007	119,638

As further detailed in note 3.4 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 consolidated capital reserve.

At 31 December 2007, the amount of goodwill remaining in consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2006: HK$1,819,000), representing its cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the PRC television products cash-generating unit for impairment testing.

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 7.7% (2006: 7.6%) and the 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 rate used is before tax and reflects specific risks relating to the unit.

20. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2007:			
Cost at 1 January 2007, net of accumulated amortisation	**10,132**	**57,652**	**67,784**
Acquisition of a subsidiary (note 40(b))	**13,966**	**1,032**	**14,998**
Amortisation provided during the year	**(3,948)**	**(235)**	**(4,183)**
Impairment during the year	**–**	**(36,640)**	**(36,640)**
Exchange realignment	**470**	**103**	**573**
At 31 December 2007	**20,620**	**21,912**	**42,532**
At 31 December 2007:			
Cost	**30,131**	**58,946**	**89,077**
Accumulated amortisation and impairment	**(9,511)**	**(37,034)**	**(46,545)**
Net carrying amount	**20,620**	**21,912**	**42,532**
31 December 2006:			
Cost at 1 January 2006, net of accumulated amortisation	14,060	77,933	91,993
Amortisation provided during the year	(3,928)	(2,536)	(6,464)
Impairment during the year	–	(19,137)	(19,137)
Exchange realignment	–	1,392	1,392
At 31 December 2006	10,132	57,652	67,784
At 31 December 2006:			
Cost	15,695	90,890	106,585
Accumulated amortisation and impairment	(5,563)	(33,238)	(38,801)
Net carrying amount	10,132	57,652	67,784

20. OTHER INTANGIBLE ASSETS (continued)

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$19,958,000 (2006: HK$56,598,000), which have indefinite useful lives. These trademarks are treated as having indefinite useful lives because, in the opinion of the directors, there are no foreseeable limit to the periods 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 of the relevant trademarks is 8.6% (2006: 11%) and the 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.

An impairment loss of HK$36,640,000 (2006: HK$19,137,000) in respect of the Group's trademarks was recognised during the year because the Group has lost a major licensee for the relevant trademarks during the year.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**3,385,297**	3,385,297
Due from subsidiaries	**2,154,019**	1,641,242
Due to subsidiaries	**(218,064)**	(227,602)
Capital contribution in respect of employee share-based compensation	**36,869**	25,295
	5,358,121	4,824,232
Impairment (note)	**(2,206,501)**	(2,206,501)
	3,151,620	2,617,731
Less: Portion of amounts due from subsidiaries classified as current assets	**(1,986,424)**	(1,460,514)
	1,165,196	1,157,217

Note: During the prior year, an impairment was recognised for certain unlisted investments with a carrying amount of HK$3,375,582,000 (before deducting the impairment loss) because the relevant subsidiaries had suffered losses for years or ceased operations. There was no change in the impairment account during the current year.

21. INTERESTS IN SUBSIDIARIES (continued)

The balances with subsidiaries are unsecured and interest-free, and have no fixed terms of repayment, except for the balances due from TTE Corporation ("TTE") and its subsidiaries totalling HK$1,986,424,000 (2006: HK$1,460,514,000) which are unsecured and repayable on demand, and of which HK$1,503,053,000 (2006: HK$1,253,471,000) bears interest at 1.05% above inter-bank offer rates per annum (2006: 1.05% above inter-bank offer rates per annum).

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 2007	2006	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited**	PRC	RMB88,130,825	**100**	100	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$25,452,000	**100**	100	Manufacture of audio-visual products
TTE Corporation @#	British Virgin Islands/ Hong Kong	US$10,000	**100**	100	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	**100**	100	Manufacture and sale of audio-visual products
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000,000	**100**	100	Manufacture and sale of audio-visual products
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	**70**	70	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	**100**	100	Operation of a distribution network in the PRC

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21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2007	2006	Principal activities
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	**100**	100	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	**100**	100	Trading of audio-visual products and components
TCL Holdings (BVI) Limited#	British Virgin Islands/ Hong Kong	US$25,000	**100**	100	Investment holding
TTE Belgium S.A.#	Belgium	EUR61,500	**100**	100	Investment holding
TCL International Electronics (BVI) Limited#	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TTE (North America) Holdings Limited#	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR246,087,489	**100**	100	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**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	**100**	100	Manufacture and sale of audio-visual products and trading of components

21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company		Principal activities
			2007	2006	
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	**70**	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	**100**	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	**100**	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	100	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	**100**	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited#	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	**100**	100	Manufacture and sale of audio-visual products
TCL-Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	**100**	100	Trading of audio-visual products and components
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US$22,103,000	**100**	100	Manufacture of audio-visual products

21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2007	% of equity attributable to the Company 2006	Principal activities
TTE Technology Canada Limited	Canada	CAD816,000	**100**	100	Trading of audio-visual products and components
TTE Technology Inc.#	USA	US$75,954,000	**100**	100	Trading of audio-visual products and components
TCL Russia LLC	Russia	RUB3,000,000	**100**	100	Trading of audio-visual products and components
TCL Go Video	Cayman Islands/USA	US$0.1	**100**	100	Intellectual property holding
TCL Overseas Marketing (Macao Commercial Offshore) Limited	Macao	MOP100,000	**100**	100	Trading of audio-visual products and components
TCL Operations Polska S.P. ZO.O.	Poland	PLN16,001,500	**100**	–	Manufacture of audio-visual products

@ 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.

The Group had charged all its rights, interests, benefit and title in and to the shares of TCL Information Technology Industrial (Group) Company Limited, TCL International Electronics (BVI) Limited, TTE Corporation, TCL Holdings (BVI) Limited, TCL Overseas Holdings Limited, TTE (North America) Holdings Limited, TTE Technology Inc. and TTE Belgium S.A. to the purchaser of the convertible bonds (note 35).

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.

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**115,571**	110,444

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 27 and 31 to the financial statements, respectively.

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

Name	Particulars of issued shares/ registered capital	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Paid up capital of US$16,550,000	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Ordinary shares of PHP100 each	Philippines	50	50	50	Trading of audio-visual products

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

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**127,014**	132,984
Non-current assets	**16,677**	17,494
Current liabilities	**(28,120)**	(38,016)
Non-current liabilities	**–**	(2,018)
Net assets	**115,571**	110,444

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' results:		
Turnover	**420,734**	666,267
Other revenue	**7,658**	887
Total revenue	**428,392**	667,154
Total expenses	**(432,313)**	(662,419)
Tax	**(4)**	(1,146)
Profit/(loss) after tax	**(3,925)**	3,589

23. INTERESTS IN ASSOCIATES

	Group	
	2007 **HK$'000**	2006 HK$'000
Share of net assets	**78,595**	69,566

Particulars of the associates are as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd. ("TCL Finance")	RMB500,000,000	PRC	14	Provision of financial services
Guangdong Yijiatong Technical Development of Digital Home Co., Ltd.* ("Guangdong Yijiatong")	RMB10,000,000	PRC	20	Provision of technical services

* Not audited by Ernst & Young Hong Kong or other member firms of the Ernst & Young global network

The Group's shareholdings in TCL Finance and Guangdong Yijiatong are held through indirectly wholly-owned subsidiaries of the Company.

23. INTERESTS IN ASSOCIATES (continued)

Although the Group holds less than 20% of the voting power of TCL Finance, in the opinion of the directors, the Group is in a position to exercise significant influence over TCL Finance through its representation on the board of directors and its participation in policy-making processes of TCL Finance.

TCL Finance and Guangdong Yijiatong have been accounted for using the equity method in these financial statements, and the financial year end of the above associates is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007	2006
	HK$'000	HK$'000
Assets	**1,363,264**	582,740
Liabilities	**806,485**	85,840
Revenues	**25,758**	5,422
Profit/(loss)	**12,157**	(502)

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments, at cost	**2,690**	5,055
Provision for impairment	**(1,682)**	(2,730)
	1,008	2,325

The Group's available-for-sale 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) these investments 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.

25. PREPAID ROYALTY

	Group	
	2007	2006
	HK$'000	HK$'000
Total at 31 December	**298,490**	286,539
Less: Portion classified as current assets (note 29)	**(109,255)**	(16,943)
Non-current portion	**189,235**	269,596

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 S.A. ("Thomson"), and TTE, a paid-up royalty account with an initial amount of Euro 70 million (the "Prepaid Royalty Amount") 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 the Prepaid Royalty Amount. After the fourth anniversary of the Patent Royalty Agreement, TTE may elect to apply the remaining balance of the Prepaid Royalty Amount to pay any other amounts that may be due to TLSA and its affiliates under certain other operation agreements associated with the Combination Agreement dated 28 January 2004 entered into between Thomson and the Group.

In 2006, pursuant to the term sheet dated 12 October 2006 (the "Settlement Term Sheet") and the Master Resolving and Settlement Agreement dated 13 February 2007 (the "Master Agreement"), Thomson repaid TTE an amount of Euro 30.4 million (the "Partial Royalty Repayment") in respect of the portion of the Prepaid Royalty Amount that TTE has allocated to TTE Europe. The Partial Royalty Repayment was settled partly by cash and partly by way of offsetting part of the loan due to Thomson as at 31 August 2006.

26. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**830,668**	848,461
Work in progress	**238,413**	271,349
Finished goods	**2,160,281**	2,087,109
	3,229,362	3,206,919

At 31 December 2006, certain of the Group's raw materials, work in progress and finished goods with net book values of HK$34,361,000, HK$1,174,000 and HK$17,757,000, respectively, were pledged to secure general banking facilities granted to a subsidiary of the Group (note 34). Due to the expiry of the relevant banking facilities and the repayment of all relevant borrowings during the year, all the above pledges were released.

27. TRADE RECEIVABLES

	Note	Group 2007 HK$'000	2006 HK$'000
Due from third parties		**3,010,920**	3,465,665
Impairment		**(317,774)**	(411,842)
		2,693,146	3,053,823
Due from related parties:			
TCL Corporation	28	**–**	1,987
Companies controlled by TCL Corporation	28	**25,822**	12,291
Thomson and companies controlled by Thomson (collectively the "Thomson Group")*	28	**–**	10,565
Jointly-controlled entities	28	**15,219**	19,709
		41,041	44,552
Total		**2,734,187**	3,098,375

* Thomson ceased to be a related party of the Group on 20 March 2007 and all balances with the Thomson Group as at 31 December 2007 were classified as balances due from third parties.

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 made on the open-account basis with credit terms of no more than 180 days. The Group also entered into certain receivables purchase agreements with its banks and pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks.

In view of the aforementioned and the fact 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.

27. TRADE RECEIVABLES (continued)

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 90 days	**2,663,295**	2,777,622
91 to 180 days	**41,570**	163,770
181 to 365 days	**15,744**	119,421
Over 365 days	**13,578**	37,562
	2,734,187	3,098,375

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January	**411,842**	234,714
Impairment losses recognised	**20,787**	191,365
Amount written off as uncollectible	**(135,153)**	(25,311)
Exchange realignment	**20,298**	11,074
	317,774	411,842

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

27. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**1,467,528**	1,527,468
Less than 90 days past due	**1,209,883**	1,363,924
90 – 180 days past due	**28,179**	134,425
Over 180 days past due	**28,597**	72,558
	2,734,187	3,098,375

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2007, the Group's trade receivables of HK$610,306,000 (2006: HK$764,384,000) (the "Factored Receivables") were factored to certain banks 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.

Accordingly, the advances from the relevant banks of HK$610,306,000 (2006: HK$764,384,000) received by the Group as consideration for the Factored Receivables were recognised as liabilities and included in "interest-bearing bank and other borrowings" (note 34).

28. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/ THE THOMSON GROUP/JOINTLY-CONTROLLED ENTITIES

T.C.L. Industries and Thomson are shareholders of the Company and TCL Corporation is the holding company of T.C.L. Industries. The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount of HK$145,591,000 (2006: HK$281,747,000) due to TCL Corporation which bears interest at 5.49% per annum, being the loan interest rate offered by the Export-Import Bank of China (2006: 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China).

29. OTHER RECEIVABLES

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments and deposits		**199,576**	210,440	**2,503**	1,051
Other receivables		**473,031**	497,621	**451**	775
Prepaid land lease payments	18	**1,792**	2,263	**–**	–
Prepaid royalty	25	**109,255**	16,943	**–**	–
Due from the Thomson Group (note)		**–**	160,766	**–**	–
Due from companies controlled by TCL Corporation	28	**2,682**	1,187	**–**	1,187
Restructuring costs reimbursement receivable from Thomson		**–**	37,705	**–**	–
		786,336	926,925	**2,954**	3,013

Note: The balance represented the net amount receivable from the Thomson Group arising from the Settlement Term Sheet and the Master Agreement. It was fully settled by the Thomson Group on 16 February 2007.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

30. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total cash and bank balances	**1,095,341**	1,904,633	**412**	5,041
Less: Time deposits pledged for banking facilities (note 34)	**–**	(10,000)	**–**	–
	1,095,341	1,894,633	**412**	5,041

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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances and the pledged deposits approximate to their fair values.

Included in the Group's cash and bank balances are deposits of HK$108,388,323 (2006: HK$62,056,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.72% (2006: 0.72%) per annum, being the savings rate offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 45 to the financial statements.

Included also in the Group's cash and bank balances as at 31 December 2006 was a balance of HK$50,963,000 held in an escrow bank account which was designated to finance the termination costs in respect of the employees of the EU Group in France.

31. TRADE PAYABLES

		Group	
		2007	2006
	Note	**HK$'000**	HK$'000
Due to third parties		**3,732,873**	3,810,491
Due to related parties:			
Companies controlled by TCL Corporation	28	**278,672**	225,066
The Thomson Group*	28	**–**	58,391
Jointly-controlled entities	28	**125,204**	144,615
		403,876	428,072
		4,136,749	4,238,563

* Thomson ceased to be a related party of the Group on 20 March 2007 and all balances with the Thomson Group as at 31 December 2007 were classified as balances due to third parties.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Current to 90 days	**3,970,131**	4,176,852
91 to 180 days	**91,154**	35,744
181 to 365 days	**48,477**	25,967
Over 365 days	**26,987**	–
	4,136,749	4,238,563

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

32. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2007**	2006	**2007**	2006
		HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	(a)	**724,003**	644,176	**1,611**	3,430
Accruals		**701,653**	1,398,418	**5,732**	13,903
Due to T.C.L. Industries	(b)	**58,245**	36,040	**37,122**	36,040
Due to companies controlled by TCL Corporation	28	**–**	20,901	**1,089**	2,031
		1,483,901	2,099,535	**45,554**	55,404

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amount due to T.C.L. Industries is unsecured, interest-free and repayable on demand, except for a balance of HK$34,920,900 (2006: HK$34,991,000) which bears interest at 3.084% per annum, being the six-month LIBOR on the inception date of the advances.

33. PROVISIONS

Group	**Restructuring costs**	**Warranties**	**Total**
	HK$'000	HK$'000	HK$'000
At 31 December 2006 and 1 January 2007	456,877	348,451	805,328
Arising during the year	33,450	381,634	415,084
Utilised during the year	(384,250)	(332,380)	(716,630)
Reversal of unutilised amounts	–	(72,868)	(72,868)
Deconsolidation of subsidiaries (note 40(d))	(118,907)	–	(118,907)
Exchange realignment	12,830	25,077	37,907
At 31 December 2007	–	349,914	349,914

Restructuring costs

In prior year, the Group had implemented a number of measures in restructuring the EU Business and finally, after the conclusion of the Settlement Term Sheet, the Group decided to restructure and reposition its presence in Europe by significantly winding down the EU Business and building up a new business model. Details of the net costs in connection with the restructuring and winding-down of the EU Business charged to the Group's income statement were set out in note 7 to the financial statements.

33. PROVISIONS (continued)

Warranties

The Group provides warranties ranging from three months to three years 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.

34. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts – secured	**–**	**–**	**–**	WIBOR+1.0	2007	53,048
Bank loans – secured	**–**	**–**	**–**	WIBOR+1.0	2007	6,475
Bank loans – unsecured	**–**	**–**	**–**	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831
Bank loans – unsecured	**5.6 to 9.0**	**2008**	**226,300**	4.3 to 7.1	2007	412,159
Advances from banks as consideration for Factored Receivables	**LIBOR+(0.4 to 0.5)**	**2008**	**610,306**	LIBOR+(0.3 to 0.5)	2007	764,384
Trust receipt loans – secured	**–**	**–**	**–**	SIBOR+1.0	2007	6,785
Trust receipt loans – unsecured	**LIBOR+0.7**	**2008**	**76,919**	LIBOR+(0.7 to 1.0)	2007	79,327
Loan from TCL Finance	**–**	**–**	**–**	5.3	2007	187,027
Other loan	**–**	**–**	**–**	3.0	On demand	36,546
			913,525			2,660,582
Non-current						
Loans from TCL Finance	**HIBOR+2.0 or 6.41**	**2009**	**131,041**	–	–	–
			1,044,566			2,660,582

34. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Company

	2007			2006		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	**–**	**–**	**–**	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831
Other loan	**–**	**–**	**–**	3.0	On demand	36,546
			–			1,151,377

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Analysed into:				
Bank loans and overdrafts repayable within one year or on demand	**913,525**	2,437,009	**–**	1,114,831
Other borrowings repayable:				
Within one year	**–**	223,573	**–**	36,546
In the second year	**131,041**	–	**–**	–
	131,041	223,573	**–**	36,546
	1,044,566	2,660,582	**–**	1,151,377

Notes:

(a) At 31 December 2006, the Group's overdraft facilities amounted to HK$53,048,000, all of them had been utilised as at the balance sheet date, were secured by the pledge of certain of the Group's inventories amounted to HK$53,292,000.

34. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(b) At 31 December 2006, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits and items of property, plant and equipment amounted to HK$10,000,000 and HK$92,834,000, respectively.

(c) As at 31 December 2007, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(d) Except for the unsecured bank loans with an aggregate carrying amount of HK$226,300,000 (2006: HK$412,159,000), part of the loans from TCL Finance of HK$32,041,000 (2006: HK$187,027,000) and the other loan of HK$36,546,000 as at 31 December 2006, all other borrowings of the Group bear interest at floating rates.

In addition, TCL Corporation has guaranteed certain of the Group's bank loans up to HK$296,979,000 (2006: HK$315,657,000) as at the balance sheet date.

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**579,652**	1,198,656	**–**	629,840
Euro	**–**	426,167	**–**	426,167

The carrying amounts and the fair values of the Group's and the Company's non-current borrowings are as follows:

	Group			
	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans from TCL Finance	**131,041**	–	**130,520**	–
Liability component of convertible bonds (note 35)	**506,698**	–	**1,248,889**	–
	637,739	–	**1,379,409**	–

34. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Company			
	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Liability component of convertible bonds (note 35)	**506,698**	–	**1,248,889**	–

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for similar convertible bonds. The fair value of the loans from TCL Finance has been calculated by discounting the expected future cash flows at prevailing interest rates.

35. CONVERTIBLE BONDS

On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), in relation to the issue of secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). The Bonds were issued and completion of the Purchase Agreement took place on 12 July 2007.

The principal terms of the Bonds are summarised below:

(a) The obligations of the Company under the Bonds are secured by the pledge of the shares of certain wholly-owned subsidiaries of the Company. Further details of the shares pledged as security for the Bonds are set out in note 21 to the financial statements.

(b) The Bonds bear interest at the rate of 4.5% per annum of the principal amount of the Bonds. Interest is payable quarterly in arrears commencing on 30 September 2007.

(c) The Bonds are convertible at the option (the "Conversion Option") of the bondholders into fully paid ordinary shares of the Company at any time on or after 23 August 2007 and up to the close of business on 12 July 2012 at an initial conversion price of HK$0.40 (the "Initial Conversion Price") per share, subject to adjustments, including an initial price reset and three annual price resets, as provided under the terms and conditions of the Bonds.

(d) At any time when the delivery of ordinary shares of the Company deliverable upon conversion of the Bonds is required, the Company shall have the option to pay the relevant bondholders in cash in full or in part in order to satisfy such conversion right.

35. CONVERTIBLE BONDS (continued)

(e) On or at any time after 12 July 2009 and prior to 12 July 2012, the Company may redeem the Bonds at a redemption price equal to the aggregate of (i) the issue price of the Bonds; (ii) a premium of 37.5% of the principal amount accrued up to the redemption date; and (iii) accrued interest. The redemption can be undertaken on all of the bonds only.

(f) On the maturity date, i.e., 12 July 2012, the Bonds will be redeemed by the Company at 137.5% of the principal amount.

The Initial Conversion Price of HK$0.40 per share was adjusted to HK$0.65 per share with effect from 16 August 2007 in accordance with the terms and conditions of the Bonds.

The proceeds from the issue of the Bonds on 12 July 2007 of US$140 million (equivalent to approximately HK$1,095 million) were split into the liability and the derivative components. On issuance of the Bonds, the fair value of the derivative component, i.e., the Conversion Option, is determined using an option pricing model and this amount is carried as a derivative component of the Bonds until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component of the Bonds, net of transaction costs, and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The fair value of the derivative component is remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement.

The fair values of the derivative component at the issuance date and at 31 December 2007 are determined based on the valuations performed by BMI Appraisals Limited, independent professionally qualified valuer, using the applicable option pricing model. Changes in fair value of the derivative component between the issuance date and the balance sheet date is recognised in the income statement.

35. CONVERTIBLE BONDS (continued)

The net proceeds received from the issue of the Bonds that have been split into the derivative and the liability components are analysed as follows:

	2007
	HK$'000
Nominal value of convertible bonds issued during the year (US$140 million)	1,095,346
Transaction costs allocated to the liability component	(15,079)
Derivative component at the issuance date	(617,742)
Liability component at the issuance date	462,525
Interest expense (note 8)	68,456
Interest paid	(23,030)
Foreign exchange differences	(1,253)
Liability component at 31 December 2007	506,698
Derivative component at the issuance date	617,742
Fair value adjustment	(241,417)
Foreign exchange differences	(1,811)
Derivative component at 31 December 2007	374,514

36. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2006		24,057
Deferred tax credited to the income statement during the year	12	(2,278)
Exchange realignment		129
Gross deferred tax liabilities at 31 December 2006 and 1 January 2007		21,908
Deconsolidation of subsidiaries	40(d)	(764)
Deferred tax credited to the income statement during the year	12	(7,549)
Exchange realignment		177
Gross deferred tax liabilities at 31 December 2007		13,772

36. DEFERRED TAX (continued)

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 2006		7,300	11,590	8,050	750	27,690
Deconsolidation of a subsidiary	40(d)	–	–	(7,671)	–	(7,671)
Deferred tax credited/(charged) to the income statement during the year	12	2,000	(3,845)	(1,265)	2,029	(1,081)
Exchange realignment		–	754	886	100	1,740
Gross deferred tax assets at 31 December 2006 and 1 January 2007		9,300	8,499	–	2,879	20,678
Deferred tax credited/(charged) to the income statement during the year	12	1,604	(5,461)	–	(486)	(4,343)
Exchange realignment		–	320	–	197	517
Gross deferred tax assets at 31 December 2007		10,904	3,358	–	2,590	16,852

The Group has tax losses of HK$1,559,222,000 (2006: HK$3,739,284,000) 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 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates.

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

37. 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.

	2007	2006
	HK$'000	HK$'000
Net benefit expense		
Current service cost	**5,642**	33,399
Interest cost on benefit obligation	**1,326**	782
Net cumulative actuarial loss/(gain) recognised in the income statement	**183**	(6,111)
Net benefit expense	**7,151**	28,070
Benefit liabilities		
Benefit obligation	**15,564**	15,280
Unrecognised net actuarial losses	**1,311**	2,891
Benefit liabilities	**16,875**	18,171
Movements in the benefit liabilities during the year are as follows:		
At 1 January	**18,171**	165,615
Deconsolidation of a subsidiary (note 40(d))	**–**	(87,161)
Benefit expense (note 9)	**7,151**	28,070
Contributions	**(9,024)**	(30,478)
Curtailments	**–**	(68,089)
Exchange realignment	**577**	10,214
At 31 December	**16,875**	18,171

37. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

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

	2007	2006
	%	%
Discount rate	**4.5 – 5.25**	4.5 – 5.25
Future salary increases	**4.0 – 5.0**	2.0 – 5.0
Future pension increases	**1.0**	1.0
Healthcare cost increase rate	**5.0 – 9.5**	5.0 – 9.5

38. SHARE CAPITAL

Shares

	Company	
	2007	2006
	HK$'000	HK$'000
Authorised:		
22,000,000,000 (2006: 8,000,000,000)		
shares of HK$0.10 each	**2,200,000**	800,000
Issued and fully paid:		
5,837,715,590 (2006: 3,902,951,727)		
shares of HK$0.10 each	**583,772**	390,295

During the year, the movements in share capital were as follows:

(a) Pursuant to the resolution passed on 21 June 2007, the authorised share capital of the Company was increased from HK$800,000,000 to HK$2,200,000,000 by the creation of 14,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

(b) A rights issue (the "Rights Issue") of one rights share for every two existing shares held by members on the register of members of the Company on 21 June 2007 was made, at an issue price of HK$0.40 per rights share, resulting in the issue of 1,951,475,863 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$780,591,000.

38. SHARE CAPITAL (continued)

Shares (continued)

(c) During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate cost paid	Transaction costs	Total consideration
		HK$	HK$	HK$'000	HK$'000	HK$'000
December 2007	16,712,000	0.455	0.43	7,423	58	7,481

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

A summary of the movements in the Company's issued share capital and share premium account during the year are as follows:

	Notes	Numbers of shares in issue	Issued share capital	Share premium account	Total
			HK$'000	HK$'000	HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007		3,902,951,727	390,295	1,560,215	1,950,510
Rights Issue	(b)	1,951,475,863	195,148	585,443	780,591
Shares repurchased	(c)	(16,712,000)	(1,671)	(5,810)	(7,481)
		5,837,715,590	583,772	2,139,848	2,723,620
Share issuance expenses		–	–	(7,521)	(7,521)
At 31 December 2007		5,837,715,590	583,772	2,132,327	2,716,099

38. SHARE CAPITAL (continued)

Share options

On 11 November 2006, the share option scheme adopted by the Company on 12 May 2003 (the "Old Scheme") was expired and a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company, subject to adjustments, on 15 February 2007. 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 ten 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 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 ten 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 highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of 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 offer; and (iii) the nominal value of the Company's shares.

38. SHARE CAPITAL (continued)

Share options (continued)

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

	2007		2006	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.4**	**135,420**	1.529	183,343
Adjustment arising from the Rights Issue	**1.167**	**27,014**	–	–
Granted during the year	**0.630**	**242,624**	–	–
Lapsed during the year	**0.985**	**(34,518)**	1.4	(17,500)
Expired during the year	**–**	**–**	2.177	(30,423)
At 31 December	**0.832**	**370,540**	1.4	135,420

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
139,638	**1.167**	Note 1
230,902	**0.63**	Note 2
370,540		

38. SHARE CAPITAL (continued)

Share options (continued)

2006

Number of options '000	Exercise price* HK$ per share	Exercise period
135,420	1.4	Note 1

* The exercise price of the share options is subject to adjustment in case of rights on bonus issues, or other similar changes in the Company's share capital.

Note 1 One-third of such share options is 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.

Note 2 One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

The fair value of the share options granted in 2007 was HK$64,764,000 (approximately HK$0.267 each). The fair value of equity-settled share options granted in current 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 2007.

Dividend yield (%)	Nil
Expected volatility (%)	50.00 per annum
Risk-free interest rate (%)	4.52 per annum
Expected life of options (year)	5.00

The expected life of the options is based on the historical data over the past five 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. SHARE CAPITAL (continued)

Share options (continued)

Restricted Share Award Scheme

Subsequent to the balance sheet date, on 6 February 2008 (the "Adoption Date"), the board of directors of the Company (the "Board") approved the Restricted Share Award Scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") maybe awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of Awarded Shares awarded to a Selected Employee under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such number of shares awarded as specified by the Board and shall hold such shares until they are vested in accordance with the rules of the Award Scheme.

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

Moreover, a proposal will be put to the shareholders allowing the Board to implement the Award Scheme to its full extent (i.e, to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Employee under the scheme.

At the date of approval of these financial statements, no Awarded Shares was awarded to any Selected Employees under the Award Scheme.

39. RESERVES

Group

	Attributable to equity holders of the parent								
	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697
Exchange realignment	–	–	–	–	85,669	–	85,669	3,465	89,134
Loss for the year	–	–	–	–	–	(2,497,314)	(2,497,314)	(3,158)	(2,500,472)
Disposal of subsidiaries (note 40(c))	–	–	–	–	–	–	–	(19,907)	(19,907)
Equity-settled share option arrangements	–	22,295	–	–	–	–	22,295	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	–	–	20,376	–	–	–
Transfer from retained profits	–	–	–	99,476	–	(99,476)	–	–	–
At 31 December 2006 and 1 January 2007	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	1,210,871	88,876	1,299,747
Exchange realignment	–	–	–	–	34,574	–	34,574	6,805	41,379
Profit/(loss) for the year	–	–	–	–	–	(262,016)	(262,016)	8,837	(253,179)
Issue of shares	585,443	–	–	–	–	–	585,443	–	585,443
Share issuance expenses	(7,521)	–	–	–	–	–	(7,521)	–	(7,521)
Shares repurchased	(5,810)	–	–	–	–	–	(5,810)	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	–	–	19,743	–	19,743
Share options lapsed during the year	–	(7,859)	–	–	–	7,859	–	–	–
Transfer from retained profits	–	–	–	36,102	–	(36,102)	–	–	–
At 31 December 2007	2,132,327	57,278	59,099	704,364	185,709	(1,563,493)	1,575,284	104,518	1,679,802

39. RESERVES (continued)

* Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries and a jointly-controlled entity in the PRC has been transferred to the reserve funds which are restricted as to use. In addition, profit of a jointly-controlled entity 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 remains eliminated against the capital reserve is explained in note 19 to the financial statement.

Company

	Share premium account HK$'000	**Share option reserve** [Δ] HK$'000	**Capital reserve** [#] HK$'000	**Retained profits/ (accumulated losses)** HK$'000	**Total** HK$'000
At 1 January 2006	1,560,215	43,475	738,936	1,358,055	3,700,681
Equity-settled share option arrangements	–	22,295	–	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	20,376	–
Loss for the year	–	–	–	(2,700,095)	(2,700,095)
At 31 December 2006 and 1 January 2007	1,560,215	45,394	738,936	(1,321,664)	1,022,881
Issue of shares	585,443	–	–	–	585,443
Share issuance expenses	(7,521)	–	–	–	(7,521)
Shares repurchased	(5,810)	–	–	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	19,743
Share options lapsed during the year	–	(7,859)	–	7,859	–
Profit for the year	–	–	–	23,884	23,884
At 31 December 2007	2,132,327	57,278	738,936	(1,289,921)	1,638,620

39. RESERVES (continued)

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of minority interests

For the year ended 31 December 2006

In 2006, the Group acquired the remaining 49% equity interest in TCL Electrical Appliance Sales Co., Ltd. (the "Sales Company") owned by TCL Corporation. This acquisition was completed on 10 May 2006 and the consideration has not been settled as at 31 December 2006.

The carrying amount of the 49% equity interest in the Sales Company as at the date of acquisition and the goodwill arose from the acquisition were as follows:

	HK$'000
Carrying amount	–
Goodwill	63,138
	63,138
Satisfied by:	
Due to TCL Corporation	63,138

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary

On 27 September 2007, the Group acquired a 100% equity interest in Shenzhen Asic Microelectronics Limited ("Asic Microelectronics") owned by TCL Corporation and T.C.L. Industries at a total consideration of RMB25,000,000 (equivalent to HK$25,283,000). Asic Microelectronics principally engage in the design and development of various integrated circuits and the provision of technical supports related to integrated circuits. This acquisition was completed on 30 September 2007 and the consideration was settled as to HK$20,026,000 in cash and the remaining amount of HK$5,257,000 has not been settled as at 31 December 2007.

The fair values of the identifiable assets and liabilities of Asic Microelectronics as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Net assets acquired:			
Property, plant and equipment	17	556	670
Other intangible assets	20	14,998	–
Inventories		5,576	5,576
Trade receivables		5,828	5,828
Other receivables		900	900
Trade payables		(1,151)	(1,151)
Other payables and accruals		(443)	(443)
		26,264	11,380
Excess over the cost of a business combination		(981)	
		25,283	
Satisfied by:			
Cash		20,026	
Due to T.C.L. Industries		5,257	
		25,283	

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary (continued)

The results of the subsidiary acquired during the year had no significant impact on the Group's consolidated turnover or loss for the year ended 31 December 2007.

There would have been no significant differences to the Group's consolidated loss for the year had the acquisition taken place at the beginning of the year.

(c) Disposal of subsidiaries

	Notes	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment	17	303,264
Prepaid land lease payments	18	4,836
Goodwill	19	150,139
Available-for-sale investments		11,858
Interest in a jointly-controlled entity		49,494
Long term receivables		38,678
Inventories		157,500
Trade receivables		399,947
Bills receivable		12,384
Other receivables		148,851
Tax recoverable		1,219
Cash and bank balances		16,159
Trade payables		(82,664)
Bills payable		(193,384)
Tax payable		(565)
Other payables and accruals		(65,574)
Interest-bearing bank and other borrowings		(175,593)
Due to Group companies, net		(382,785)
Minority interests		(19,907)
		373,857
Satisfied by cash		373,857

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK$'000
Cash consideration	373,857
Cash and bank balances disposed of	(16,159)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	357,698

(d) Deconsolidation of subsidiaries

(i) For the year ended 31 December 2007

On 24 May 2007, TTE Europe filed a declaration of insolvency to the French court and the French court appointed the Liquidator to take over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person being responsible for winding-up the EU Group by liquidating its assets and making payment to its creditors. The financial statements of the EU Group were deconsolidated from the Group's consolidated financial statements since 29 May 2007 because, in the opinion of the directors, the Group was unable to exercise its rights as shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of the EU Group since that date.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Deconsolidation of subsidiaries (continued)

(i) For the year ended 31 December 2007 (continued)

	Notes	2007 HK$'000
Net liabilities of EU Group:		
Property, plant and equipment	17	38
Available-for-sale investments		376
Other receivables		59,844
Tax recoverable		241
Cash and bank balances		228,338
Trade payables		(110,425)
Tax payable		(41)
Other payables and accruals		(60,050)
Provisions	33	(118,907)
Deferred tax liabilities	36	(764)
		(1,350)
Gain on deconsolidation of subsidiaries	7	1,350
		–
Net outflow of cash and bank balances in respect of the deconsolidation of subsidiaries		(228,338)

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Deconsolidation of subsidiaries (continued)

(ii) For the year ended 31 December 2006

On 27 November 2006, a provisional administrator was appointed by the German court to secure and manage the assets and operations of TTE Germany GmbH ("TTE Germany"), an indirect wholly-owned subsidiary of the Company, upon a declaration of insolvency filed by TTE Germany. Formal insolvency proceedings were opened under the court order issued by the German court on 1 February 2007. TTE Germany was deconsolidated on 27 November 2006 because, in the opinion of the directors, the Group was unable to exercise its rights as shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of TTE Germany since that date.

	Notes	2006 HK$'000
Net liabilities of TTE Germany:		
Property, plant and equipment	17	5,156
Deferred tax assets	36	7,671
Other receivables		8,975
Tax recoverable		447
Cash and bank balances		1,524
Due from Group companies, net		69,984
Trade payables		(167)
Other payables and accruals		(13,903)
Provisions		(4,652)
Pensions and other post-employment benefits	37	(87,161)
		(12,126)
Gain on deconsolidation of a subsidiary	7	12,126
		–
Net outflow of cash and bank balances in respect of the deconsolidation of a subsidiary		(1,524)

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2007, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**24**	96
In the second to fifth years, inclusive	**–**	24
	24	120

(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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**60,015**	33,301
In the second to fifth years, inclusive	**45,017**	73,689
After five years	**5,836**	16,449
	110,868	123,439

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for	**1,083**	198
Authorised, but not contracted for	**1,761**	2,529
	2,844	2,727

43. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**2,655,170**	2,966,657
Guarantees given to suppliers in connection with the payment of purchases by subsidiaries	**–**	–	**388,951**	213,835
Guarantees given in lieu of utility and rental deposits	**1,425**	1,543	**–**	–
	1,425	1,543	**3,044,121**	3,180,492

As at 31 December 2007, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$468 million (2006: HK$885 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were utilised to the extent of approximately HK$84 million (2006: HK$13 million).

43. CONTINGENT LIABILITIES (continued)

(b) In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe against the Company, TTE Europe and TTE Belgium S.A. ("TTE Belgium"), an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro17 million (equivalent to approximately HK$196 million).

The directors, based on the advice from the Group's legal counsels, believe that the Company and TTE Belgium have a valid defence against the Claims and, accordingly, have not provided for any liability arising from the Claims.

44. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, and of the Bonds, which are secured by the assets of the Group, are included in notes 17, 26 and 34 and notes 21 and 35, respectively, to the financial statements.

45. 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	**2007** **HK$'000**	2006 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**665,865**	1,030,009
Sales of finished goods	(ii)	**77,163**	74,748
Purchases of finished goods	(iii)	**712,017**	1,108,823
TCL Corporation:			
Interest expense	(iv)	**8,489**	18,869
T.C.L. Industries:			
Interest expense	(v)	**2,751**	1,183
An associate:			
Interest income	(vi)	**250**	4
Interest expense	(vii)	**8,615**	591
Other financial services fee	(viii)	**223**	–

45. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2007 HK$'000	2006 HK$'000
Companies controlled by TCL Corporation:			
Sales of finished goods	(ii)	**3,653**	808
Purchases of raw materials	(iii)	**1,096,897**	806,025
Purchases of finished goods	(iii)	**11,721**	53,705
Subcontracting fee expense	(ix)	**11,810**	12,554
Interest income	(x)	**217**	3,387
Rental, maintenance fees and facilities usage fees	(xi)	**2,503**	4,033
Rental expense	(xii)	**9,630**	2,840
Interest expense	(xiii)	**–**	985
Reimbursement of brand advertising costs	(xiv)	**67,821**	59,106
Transportation fee expense	(xv)	**14,553**	–
Calling service fee expense	(xvi)	**14,511**	–
Sales of mobile phones	(xvii)	**25,081**	–
Purchases of materials for manufacturing of mobile phones	(xviii)	**40,142**	–
Thomson Group*:			
Sales of finished goods	(ii)	**376**	80,063
Purchases of raw materials	(iii)	**1,912**	97,334
Shared service fee expense	(xix)	**36,690**	270,213
Interest expense	(xx)	**–**	17,432
Patent royalty expense	(xxi)	**–**	15,118
Reimbursement of brand advertising costs	(xxii)	**–**	40,357
Trademark royalty fee	(xxiii)	**2,675**	43,631
After-sales and related services fee expense	(xix)	**18,051**	49,476
Laboratory service fee expense	(xix)	**–**	3,255
Subcontracting fee expense	(xxiv)	**317**	162,788
Styling service fee income	(xxv)	**–**	2,873
Logistics management service fee income	(xxv)	**–**	1,963

* Thomson ceased to be a related party of the Group on 20 March 2007 and transactions with the Thomson Group after 20 March 2007 were not included as related party transactions.

45. RELATED PARTY TRANSACTIONS (continued)

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 prices 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 a rate of 5.49% per annum, being the loan interest rate offered by the Export-Import Bank of China (2006: 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China).

(v) The interest was charged at a rate of 3.08% per annum, being the 6-month LIBOR on the inception date of the advances.

(vi) The interest was charged at a rate of 0.72% per annum, being the savings rate offered by the People's Bank of China.

(vii) The interest on three loans was charged at a rate of 5% discount on the 6-month loan interest rate offered by the People's Bank of China, 6.41% per annum and 2% premium on the 3-month HIBOR on the inception date of the loans respectively (2006: 5% discount on the 6-month loan interest rate offered by the People's Bank of China).

(viii) The other financial services fee was determined with reference to the rates of other similar services for comparable transactions.

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

(x) The interest was charged at rates of 0.72% per annum, being the saving rate offered by the People's Bank of China.

(xi) The rental, maintenance fees and facilities usage fees were determined with reference to the rates of other similar premises for comparable transactions.

(xii) The rental expense was charged at rates ranging from RMB52 to RMB70 per square metre.

(xiii) The interest was charged at a rate of 0.72% per annum, being the savings rate offered by the People's Bank of China.

45. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

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

(xv) The transportation fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The calling service fee was calculated based on the actual cost structure in connection with the provision of the calling service.

(xvii) The sales of mobile phones were made based on the cost of materials plus a value added rate with reference to other similar services for comparable transactions.

(xviii) The purchases of materials for manufacturing of mobile phones were made at cost.

(xix) The shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(xx) The interest in 2006 was charged at a rate of 3.78% to 6.1% per annum, being the cost of fund of Thomson.

(xxi) The patent royalty in 2006 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.

(xxii) The brand advertising costs in 2006 represented 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.

(xxiii) The trademark royalty fee was charged by Thomson Group at rates of 0.4% and 0.2% for Thomson A Brands and Thomson B Brands, respectively.

(xxiv) 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.

(xxv) The styling service fee and logistics management service fee in 2006 were charged by the Group at cost.

45. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties:

(i) On 15 May 2007, the Company entered into the Underwriting Agreement with T.C.L. Industries and pursuant to the Underwriting Agreement, any rights shares offered under the Rights Issue not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries. The Rights Issue was completed on 11 July 2007 and since all rights shares were accepted by the shareholders of the Company, T.C.L. Industries was not required to take up any unsubscribed rights share and its obligations under the Underwriting Agreement was therefore discharged.

Further details of the Underwriting Agreement were set out in the Company's announcements dated 15 May 2007 and 12 July 2007.

(ii) On 27 September 2007, TCL King Electrical Appliances (Huizhou) Company Limited, a wholly-owned subsidiary of the Company entered into two equity transfer agreements with TCL Corporation and T.C.L. Industries to acquire 75% and 25% equity interests, respectively, in Asic Microelectronics at a total consideration of RMB25 million (equivalent to HK$25,283,000). Asic Microelectronics principally engages in the design and development of various integrated circuits and the provision of technical supports related to integrated circuits. This acquisition was completed on 30 September 2007 and Asic Microelectronics became a wholly-owned subsidiary of the Group.

Further details of this acquisition were set out in the Company's announcements dated 27 September 2007.

(c) Details of compensation of key management personnel of the Group are set out in notes 10 and 11 to the financial statements.

Except for the transactions with jointly-controlled entities included in note 45(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, 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 interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors 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 3.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rates and the derivative component of convertible bonds.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. In some 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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings and the derivative component of the convertible bonds). There is no material impact on other components of the Group's equity.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Group	
2007	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in loss before tax HK$'000**
Hong Kong dollar	**(25)**	**(124)**
United States dollar	**(25)**	**(404)**
Renminbi	**(25)**	**(404)**
Thai Baht	**(25)**	**(17)**
Hong Kong dollar	**25**	**124**
United States dollar	**25**	**404**
Renminbi	**25**	**404**
Thai Baht	**25**	**17**

	Group	
2006	Increase/ (decrease) in basis points	Increase/ (decrease) in loss before tax HK$'000
Hong Kong dollar	(25)	(57)
United States dollar	(25)	(1,120)
Renminbi	(25)	(943)
Thai Baht	(25)	(19)
Euro	(25)	(694)
Polish Zloty	(25)	(149)
Hong Kong dollar	25	57
United States dollar	25	1,120
Renminbi	25	943
Thai Baht	25	19
Euro	25	694
Polish Zloty	25	149

46. 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 currencies. In addition, certain bank loans and the bonds are denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incur, so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

2007	**Increase/ (decrease) in exchange rates %**	**Increase/ (decrease) in loss before tax HK$'000**
If Hong Kong dollar weakens against United States dollar	**5**	**51,045**
If Hong Kong dollar weakens against Euro	**5**	**(3,996)**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**(51,045)**
If Hong Kong dollar strengthens against Euro	**(5)**	**3,996**

2006	Increase/ (decrease) in exchange rates %	Increase/ (decrease) in loss before tax HK$'000
If Hong Kong dollar weakens against United States dollar	5	19,824
If Hong Kong dollar weakens against Euro	5	20,960
If Hong Kong dollar strengthens against United States dollar	(5)	(19,824)
If Hong Kong dollar strengthens against Euro	(5)	(20,960)

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 27 and 29, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Groups financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	2007			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Convertible bonds (note 35)	**–**	**–**	**1,095,346**	**1,095,346**
Interest-bearing bank and other borrowings	**918,186**	**139,572**	**–**	**1,057,758**
Trade payables	**4,136,749**	**–**	**–**	**4,136,749**
Bills payable	**272,988**	**–**	**–**	**272,988**
Other payables (note 32)	**724,003**	**–**	**–**	**724,003**
Due to T.C.L. Industries	**59,322**	**–**	**–**	**59,322**
Due to TCL Corporation	**228,352**	**–**	**–**	**228,352**
	6,339,600	**139,572**	**1,095,346**	**7,574,518**

	2006			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	2,730,697	–	–	2,730,697
Trade payables	4,238,563	–	–	4,238,563
Bills payable	403,752	–	–	403,752
Other payables (note 32)	644,176	–	–	644,176
Due to T.C.L. Industries	37,119	–	–	37,119
Due to companies controlled by TCL Corporation (note 32)	20,901	–	–	20,901
Due to TCL Corporation	360,170	–	–	360,170
	8,435,378	–	–	8,435,378

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Groups financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows (continued):

Company

	2007			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Convertible bonds (note 35)	**–**	**–**	**1,095,346**	**1,095,346**
Other payables (note 32)	**1,611**	**–**	**–**	**1,611**
Due to T.C.L. Industries	**38,199**	**–**	**–**	**38,199**
Due to companies controlled by TCL Corporation (note 32)	**1,089**	**–**	**–**	**1,089**
	40,899	**–**	**1,095,346**	**1,136,245**

	2006			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	1,183,666	–	–	1,183,666
Other payables (note 32)	3,430	–	–	3,430
Due to T.C.L. Industries	37,119	–	–	37,119
Due to companies controlled by TCL Corporation (note 32)	2,031	–	–	2,031
	1,226,246	–	–	1,226,246

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the values of Company's own equity instruments underlie the fair values of derivatives. As at the balance sheet date, the Group was exposed to this risk through the conversion rights attached to the Bonds (note 35) issued by the Company.

As at 31 December 2007, the carrying value of the Conversion Option was HK$374,514,000 (2006: Nil) and if the market price of the Company's own share at that date had been 5% lower, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$29,391,000 lower; and if the market price of the Company's own share at that date had been 5% higher, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$32,792,000 higher.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the two years ended 31 December 2007.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, interest-bearing amount due to TCL Corporation and the Bonds, less cash and cash equivalents (including pledged deposits). Total capital refers to equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007	2006
	HK$'000	HK$'000
Interest-bearing bank and other borrowings (note 34)	**1,044,566**	2,660,582
Liability component of convertible bonds	**506,698**	–
Derivative component of convertible bonds	**374,514**	–
Due to TCL Corporation (note 28)	**145,591**	281,747
Less: Cash and bank balances (note 30)	**(1,095,341)**	(1,904,633)
Net debt	**976,028**	1,037,696
Equity attributable to equity holders of the parent	**2,159,056**	1,601,166
Gearing ratio	**45%**	65%

47. POST BALANCE SHEET EVENTS

(i) On 16 January 2008 and 30 January 2008, the Company repurchased 1,272,000 and 100,000 shares, respectively, of its own shares on the Stock Exchange for a total consideration of HK$613,900.

(ii) On 6 February 2008, the Board approved the Award Scheme under which shares of the Company maybe awarded to the Selected Employees in accordance with the provisions of the Award Scheme.

Further details of the Award Scheme are set out in note 38 to the financial statements and the Company's announcement dated 6 February 2008.

48. COMPARATIVE AMOUNTS

As further explained in note 3.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2008.

Five Year Financial Summary

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/re-presented as appropriate, is set out below.

	Year ended 31 December				
	2007	2006	2005	2004	2003
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
TURNOVER	**21,294,104**	29,186,823	32,499,945	23,641,036	13,352,854
PROFIT/(LOSS) BEFORE TAX	**(201,263)**	(2,411,311)	(578,574)	357,550	730,018
Tax	**(51,916)**	(96,523)	(107,311)	(125,075)	(76,157)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(253,179)**	(2,507,834)	(685,885)	232,475	653,861
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	7,362	(17,382)	55,469	(11,349)
PROFIT/(LOSS) FOR THE YEAR	**(253,179)**	(2,500,472)	(703,267)	287,944	642,512
Attributable to:					
Equity holders of the parent	**(262,016)**	(2,497,314)	(598,893)	308,985	634,764
Minority interests	**8,837**	(3,158)	(104,374)	(21,041)	7,748
	(253,179)	(2,500,472)	(703,267)	287,944	642,512
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**10,779,873**	12,397,004	18,151,136	16,902,901	8,669,896
Total liabilities	**(8,516,299)**	(10,706,962)	(14,052,144)	(12,549,943)	(4,449,566)
Minority interests	**(104,518)**	(88,876)	(108,476)	(1,422,082)	(100,079)
	2,159,056	1,601,166	3,990,516	2,930,876	4,120,251

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