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

# ON GLOBALIZED PLATFORM

ANNUAL REPORT 2004

ON

GLOBALIZED
PLATFORM

## Corporate Profile

TCL Multimedia Technology Holdings Limited ("TCL Multimedia" or the "Company", stock code: 1070.HK) together with its subsidiaries (the "Group") is a leading multimedia consumer electronics manufacturer with a global sales network.

Television is the core product of the Group. This business is operated under its 67% owned subsidiary, TCL-Thomson Electronics Corporation ("TTE"), the joint-venture established with Thomson S.A. ("Thomson") in August 2004. The Group's TVs sold in Asia, Europe and North America are marketed under three key brands — "TCL", "THOMSON" and "RCA" respectively. Currently, the Group is the largest TV player in the world in terms of production and sales volume.

Headquartered in China, TCL Multimedia operates highly efficient manufacturing plants and R&D centres across all major continents. In addition to TVs, the Group also manufactures PCs and AV products.

## Contents

# Financial Highlights

## Financial Performance

| | FY2004 (HK$ mil) | FY2003 (HK$ mil) | Change |
|---|---|---|---|
| Turnover | **25,600** | 15,149 | +69% |
| Gross profit | **4,375** | 2,477 | +77% |
| Gross profit margin (%) | **17.1%** | 16.4% | +0.7% |
| Operating profit | **497** | 507 | -2.0% |
| Operating profit margin (%) | **1.9%** | 3.3% | -1.4% |
| Net Profit | **317** | 642 | -51% |
| Net Profit margin (%) | **1.2%** | 4.2% | -3.0% |
| Basic EPS (HK cents) | **11.57** | 24.21 | -52% |
| DPS (HK cents) | **8.00** | 10.00 | -20% |

## Financial Position

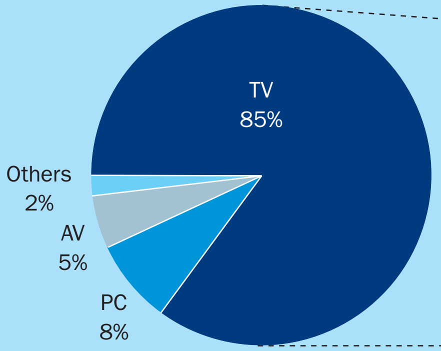
| | FY2004 (HK$ mil) | FY2003 (HK$ mil) |
|---|---|---|
| Fixed assets | **2,448** | 869 |
| Net current assets | **3,497** | 1,999 |
| Cash and bank balances | **1,833** | 1,075 |
| Total liabilities | **12,550** | 4,450 |
| Interest bearing debts | **3,729** | 743 |
| Net assets | **2,931** | 4,120 |

## Operation Indicators

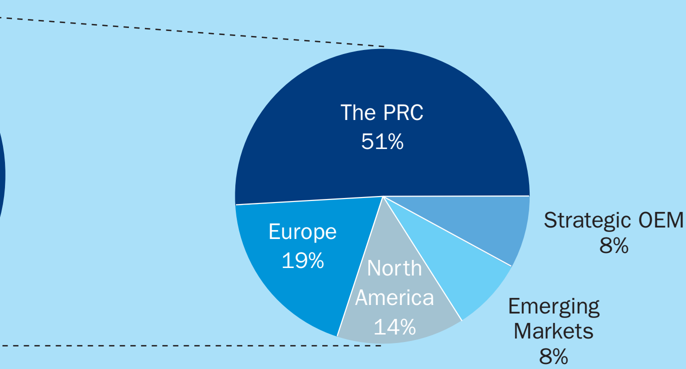
| | FY2004 | FY2003 |
|---|---|---|
| ROE | **11%** | 16% |
| Finished goods Inventory turnover (days) | **36** | 51 |
| Accounts receivables turnover (days) | **55** | 36 |
| Accounts payables turnover (days) | **75** | 84 |
| Current ratio | **1.3** | 1.5 |
| Net borrowings/equity | **0.65** | N/A |

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

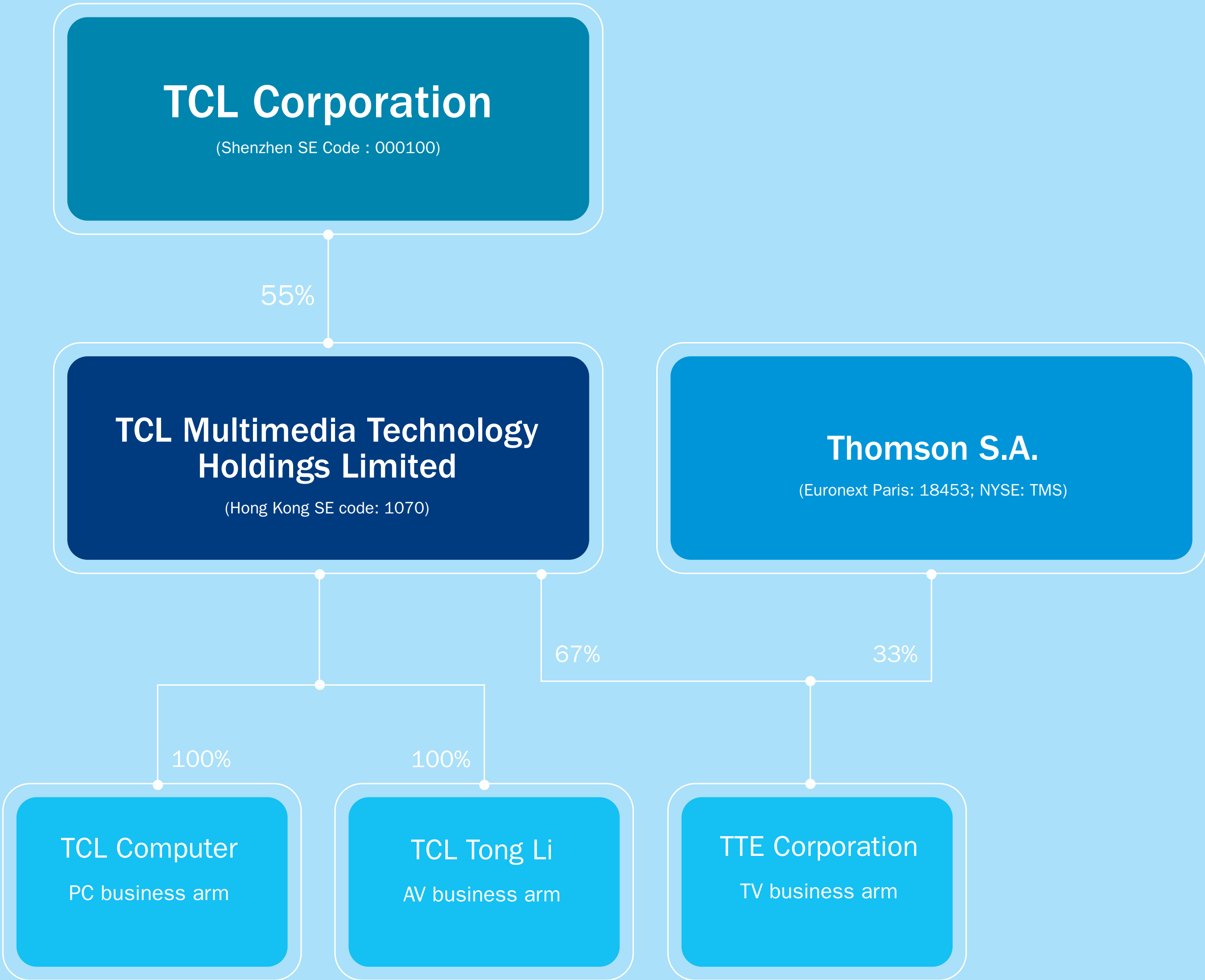
## Turnover Breakdown by Products




## TV Turnover Breakdown by Profit Centres

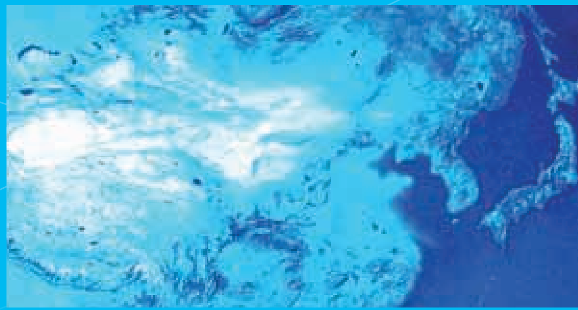


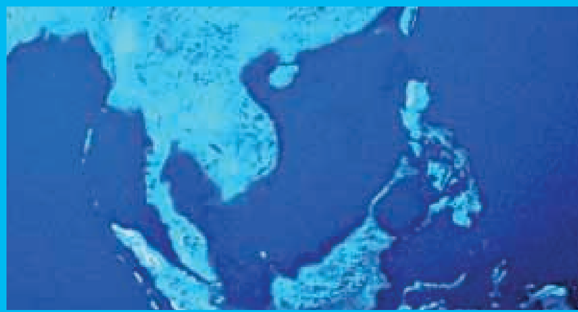
# Corporate Structure




*Remarks: TCL Communication Technology Holdings Limited ("TCL Communication", stock code: 2618.HK, the handset business arm of the Group) which was 40.8% owned by the Group, was divested by way of distribution in species and listed on the Hong Kong Stock Exchange in September 2004.*

# Year in Review






## Corporate Development

**"Fast Forward to the Globe"**
**2003 Annual Report Achievements**

1. "Silver Award" in the category of "Electronic & Components" at the International Annual Report Competition "ARC" held in New York.
2. Honorable mention in the category of the "Best Annual Report and other Corporate Literature from a PRC Company" by the IR Magazine.

## January

TCL Multimedia signed a Combination Agreement with Thomson, making further inroads into the formation of TCL-Thomson Electronics Corporation ("TTE"), a major global company in the business of TV R&D, manufacture, distribution and sales.

## June

TCL Communication signed a Joint Venture Subscription Agreement with Alcatel. Both companies obtained the shareholders, board and regulatory approvals for the formation of TCL & Alcatel Mobile Phones Limited ("T&A").

## August

TTE, the JV set up by TCL Multimedia and Thomson, officially started operations.

# 2004




## September

T&A, the JV set up by TCL Communication and Alcatel, officially started operations.

TCL Communication announced listing by way of introduction on the Main Board of The Stock Exchange of Hong Kong.

## November

TCL Multimedia obtained syndication loan facilities of US$180 million from a group of 11 international and local banks, for the financing of the newly formed TTE and general corporate funding of TCL Multimedia and its subsidiaries.


TCL
TCL

# Enhance
# Brand
# Equity

# Chairman's Statement

2004 was a meaningful year in the development history of the Group. The Group took a critical step towards its international business expansion. TTE, the TCL-Thomson joint venture, commenced operations during the year, enabling the Group to become the largest TV manufacturer in the world. In addition, the Company became the first Chinese enterprise to collaborate with a world-class corporation to establish global market leadership.

The Group completed its business restructuring in 2004 and focused on developing its multimedia business. In September 2004, the Group divested its 40.8% interest in TCL Communication, the flagship mobile handset business, which was separately listed on the Hong Kong Stock Exchange. This has established an independent operation and capital market platform for the mobile handset business. To precisely reflect its line of business, the Company changed its name to TCL Multimedia Technology Holdings Limited. With the completion of the business restructuring, the Group's corporate governance standard and shareholding structure were further enhanced and in compliance with international standards.

Undeniably, the Group still has a long way to go for international business development. Amidst the backdrop of global business consolidation, overall synergies have yet to be fully realized, which inevitably have imposed short-term pressure on the operations and business performance of the Group. By leveraging on its experience in domestic and overseas markets, the Group endeavours to overcome the greatest of future challenges to capture market potential and realize synergies rapidly to, ultimately, become a competitive world-class enterprise.

## Financial Performance

The consolidated turnover for the year ended 31 December 2004 amounted to HK$25.6 billion, representing an increase of 69% as compared to the previous year. Gross margin was approximately 17% (2003: 16%). Profit attributable to shareholders during the year under review was HK$317 million, a drop of 51%. Basic earnings per share also decreased to 11.57 HK cents (2003: 24.21 HK cents). The declining performance was mainly attributable to the substantial decrease of the contribution from mobile handset business and a loss of HK$62 million brought forth by TTE's operation, which affected the Group's overall profitability. However, with the realization of certain synergies, the loss from TTE's operation was narrowed.

The Board of Directors believes the profit decline was only a short-term phenomenon. The Group proactively implements various measures to further enhance the benefits of its greater economies of scale in procurement, research and development, production and other aspects. It is expected that overall synergies will be realized over time.

**The Group completed its business restructure in 2004 and focused on developing its multimedia business. To precisely reflect its line of business, the Company changed its name to TCL Multimedia Technology Holdings Limited.**


LI Dong Sheng
Chairman

The Board of Directors proposes the payment of a final dividend of 4 HK cents. Together with the interim dividend of 4 HK cents per share, total cash dividend payment for the year amounted to 8 HK cents per share, representing a payout ratio of 70%.

## Business Review

### TV Business

With the establishment of TTE, the Group was divided into five profit centres based on geographic region and business nature, namely the PRC market, the European market, the North American market, Emerging Markets and Strategic OEM business, forming a global business network. The Group captured different markets by capitalizing on its multi-brand strategy. TV brands under the Group's TV business include "TCL", "Rowa", "Thomson", "RCA" and "Schneider", each of which was well-recognized in its respective market.

Despite intense competition in the global market of consumer electronics, the Group continued to record remarkable turnover growth. For the year ended 31 December 2004, total TV sales reached almost 17 million sets, representing a significant increase of 43%. The encouraging growth in TV sales was mainly attributable to overseas TV sales generated by TTE. Domestic TV sales and overseas TV sales amounted to 8.88 million sets and 7.84 million sets, representing increases of 13% and 105% respectively.

The PRC remained as the major income source for the Group's TV business. To cater to market demand, the Group adopted a dual-brand strategy, selling "TCL" and "Rowa" branded TVs in the PRC. The "TCL" brand is renowned for its innovative product ideas and distinguished product design. A series of mid to high-end "TCL" brand TV models were launched, targeting the respective markets. The "Rowa" brand, on the other hand, is targeted towards the second-tier and rural markets. According to the statistics provided by the Ministry of Information Industry ("MII") and the Company data, the market share of "TCL" and "Rowa" branded TVs increased to 20%. The Group proudly maintained its market leadership.

For Emerging Markets, the Group was mainly engaged in the sales of "TCL" branded TVs and the operation of its OEM business, which achieved impressive performance during the year. By leveraging on the Group's competitive edge in its production technology and production cost, its Strategic OEM business also attained encouraging results. The Board of Directors expects that the Emerging Markets and Strategic OEM businesses will become two of the Group's major growth drivers in the future.

The Group mainly sells Thomson and Schneider brand TVs in the European market while selling RCA brand TVs in the North American market. During the year, the performance of the two markets was in line with the Group's expectations. Meanwhile, the Group focused on enhancing its operational efficiency to explore competitive edges in procurement and production costs, so as to strengthen its market competitiveness.

As TTE operated for only five months in the year under review, relevant synergies are yet to be fully realized, affecting the Group's financial performance in the TV business.

### PC Business

The PC market in the PRC experienced severe price wars during the second half of 2004, with domestic manufacturers continuing to reduce the prices of PCs with LCD monitors. The Group's PC business maintained sustainable growth despite the intensified competition. Commercial and home PCs, as well as notebook computers recorded stable growth. In 2004, PC sales reached 620,000 sets, and TCL was ranked No. 5 in the overall desktop PC market in the PRC with a share of 4%.

The Group further enhanced its product structure during the year under review. By introducing products with high gross profit margins and selling some high-end products on the foundation of the mid to low-end product segment, the Group effectively improved its product profitability. The Group also strengthened regional sales operations and management with product-driven strategies, which successfully increased sales volume and profit contribution.

### Audio-Visual Business

The AV business is one of the indispensable parts of the Group's multimedia electronic business. During the year, the Group launched a number of high definition DVD and portable DVD player models, and the attractive prices of these products established a solid foundation for future growth in sales. The Group mainly developed its OEM business in the overseas markets. To stay abreast of market changes, the Group also launched various new products for the export markets. These products received overwhelming market response and are expected to become a major revenue source of the Group's AV business.

### Mobile Handset Business

The Group divested its 40.8% interest in TCL Communication by way of distribution in species which has been listed on the Hong Kong Stock Exchange in September 2004. This arrangement allowed the Group and TCL communication to focus on their respective core businesses.

## Future Outlook

2005 will be another year of challenges and difficulties for the Group, especially in business consolidation and development. The Group endeavours to fortify and expand its domestic business while significantly enhancing its profitability overseas. The Group will reinforce its marketing efforts and expand its business in a more proactive way, such as by way of increasing brand promotion in overseas markets, such as India, Thailand, Mexico, Australia and South Africa.

Looking ahead, super large, ultra-thin, high definition and intelligent TVs with 3C convergence functions will continue to propel TV market development. Combining the robust research and development capabilities of TCL and Thomson, the Group is poised to continue to lead the market. TCL will continue to outshine its peers with new breakthroughs in three aspects, namely digital high-definition, quality 3C convergence functions and prominent audio systems.

The Group has gradually implemented programmes for consolidating and developing TTE's business. It has adopted a global procurement programme for raw material sourcing and purchasing. Notable results have been achieved. As for the European and North American markets, the two profit centres where the toughest competition are seen, the Group kicked off restructuring plans last year. Nevertheless, internationalization is always complex, and the integration between TCL and Thomson is no exception. The Group will cautiously seek measures to effectively improve the performance of the newly acquired operations. Given that the cost control measures over TTE's business in Europe and the North America take time to effect, the net loss position of TTE's business injected by Thomson remains difficult to turnaround in the near term. The Board of Directors anticipates that TTE will continue to record a loss in the first quarter of 2005.

By leveraging on our competitive edge in product research and development, supply chain management as well as sales and marketing, the Board of Directors believes that the Group will in the long run create remarkable value for shareholders. The Group is confident that synergies will be realized gradually and be more significant in 2005.

TCL has grown strong amidst keen competition, with our staff members fully embracing our motto of "dedication, loyalty, unity and innovation". TCL emerged from being a small organization to one of a respectable scale, from a purely domestic company to one that accesses the globe. Even when faced with severe price wars within the industry, TCL managed to maintain its leading competitive edge and profitability. In the years to come, TCL will continue to embrace our corporate mission of "creating value for customers, providing opportunities for employees and making contributions to shareholders and society", and is committed to becoming a competitive global enterprise.


Mr. LI Dong Sheng was named Asia's Businessman of the Year in 2004 by *Fortune* magazine.

Lastly, on behalf of the Board of Directors, I would like to extend my gratitude to the management and all staff members at TCL for their dedication and contribution. I would also like to thank our clients, suppliers and shareholders for their continuous support.

LI Dong Sheng
*Chairman*
16 April 2005

# MOVE ON TO New Generation


TCL

# Management Discussion and Analysis

## Operations Review

### Overall Business Performance

TCL's global business development strategy continued to make progress in 2004, following the establishment of TTE, the TCL-Thomson joint venture, which commenced operations in August 2004.

Since the establishment of TTE, management has been focusing their attention on streamlining operations and realizing synergies. A series of business restructuring plans were implemented in the period under review. At the manufacturing level, the Group consolidated its operations in the North America and Europe. We started to consolidate manufacturing activities in Mexico in the fourth quarter of 2004. In Europe, the manufacturing activities managed by Schneider started to be shifted to the plant in Poland to enjoy better economies of scale and benefit from our global manufacturing footprint. The manufacturing platform of the Group in China started to support the activities in the North America market. The implementation of these measures is expected to save up to €20 million per annum upon the completion of restructuring plans.

At the sourcing and procurement level, the Group has gradually shifted its operations in different markets to a global platform. The increased procurement volume, the standardizing of components, the selection and consolidation of suppliers are expected to enable the Group to save up to €40 million per annum, which would be our expectation for 2006.

Operating on an enlarged scale, with manufacturing bases and sales network spanning across all major continents, the Group's presence was greatly enhanced through its multi-brand strategy, which laid a solid foundation for future development.

| TV Unit Sales ('000 Units) | **FY2004*** | FY2003 | Change |
|---|---|---|---|
| — PRC | **8,877** | 7,826 | +13% |
| — Europe | **1,488** | 108 | Not comparable |
| — North America | **1,603** | — | Not comparable |
| — Emerging Markets | **3,054** | 2,329 | +31% |
| — Strategic OEM | **1,697** | 1,390 | +22% |

* *Thomson's TV shipment in January–July 2004 is not part of TTE, and therefore not included in the above TV shipment numbers.*

## TV Business

The Group is pleased to announce that its total TV sales achieved robust growth of 43% to 16.7 million sets in 2004, while sales revenue reached HK$21.8 billion, representing a surge of 75% and accounting for 85% of the Group's total turnover. The strong growth was partly contributed by the establishment of TTE and partly by the organic growth of TCL's TV business. The total TV sales of TCL's original TV business was 13.9 million units, while sales revenue reached HK$14.1 billion, representing a surge of 19% and 14% respectively. This was particularly impressive given the competitive landscape of the global consumer electronics market.

## The PRC

The Group achieved notable progress in the PRC market in 2004. Unit sales grew by 13% during the year under review, reaching 8.88 million sets. Sales revenue from TV sales in the PRC market amounted to HK$10.5 billion, accounting for 48% of the turnover from the TV business.

Keen competition in the PRC market led to intensified price competition across all product ranges. This was particularly apparent in the high-end segment. Continual price reductions were seen in models such as high definition digital TVs and LCD TVs. To fully embrace market opportunities, the Group adopted a dual-brand strategy in the PRC market, using the “TCL” and “Rowa” brands to target different market segments with a comprehensive product offering from high-end new models to competitively priced core value TVs. Of the total 8.88 million TV sets sold, approximately 90% were “TCL” brand models and 10% were “Rowa” brand models. The Group was pleased to see that leveraging on TCL’s distribution channel and marketing expertise, sales of its “Rowa” brand TVs picked up rapidly and formed one of the driving forces for the Group’s domestic sales.

Already a market leader in the PRC, TCL further strengthened its leadership through the dual-brand strategy. According to statistics from the MII together with our company data, the two brands in aggregate are estimated to capture a 20% share of the PRC market in the year under review, up from a 19% share in 2003.

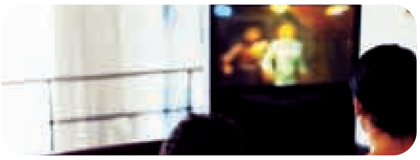
Sales of high-end models, mostly of the TCL brand, accounted for 12% of the revenue from domestic TV sales. In the projection TV segment, the Group was one of the two leading domestic players in terms of market share, according to MII. In the LCD TV segment, the Group implemented two promotional campaigns to establish its presence. The enhanced product mix has contributed to a relatively stable average selling price despite industry wide unit price decreases. This together with the implementation of a series of cost control measures, decreases in upstream component prices and good supply chain management contributed to an increase of gross margin by 2% to 22%.

A total of over 50 models were launched in 2004, of which over 30 were CRT models with enhanced features, 14 projection TVs, 3 LCD models and 3 plasma models. The launch of the TCL 61" Slim DLP model, only one-third of the depth of a conventional DLP projection model, marked a major breakthrough in the PRC market and was highly praised by customers for its innovation.

The Group also placed strong emphasis on new generation digital TVs, which offer 3C convergence features for online interactive infotainment. Its R&D efforts were driven towards higher definition, more powerful features, and enhanced digital audio systems. The exclusive “digital and high-definition 2 in 1” technology was employed to upgrade display qualities.

In addition, the Group joined hands with Genesis, a US-based global leader in IC chip manufacturing, to co-develop the first world-class DDHD IC chip for digital high definition TVs. The DDHD IC chip is embedded in all TCL digital high definition TVs, offering unparalleled visual enjoyment.

Going forward, the PRC TV market will be driven by super large, ultra-thin, high definition, intelligent TVs with digital 3C functional products in the future. Flat panel TVs will be a key R&D area for future product development. TCL will continue to stay ahead of its peers with new breakthroughs in three aspects — distinguished high definition, outstanding 3C functions and prominent audio systems.



## Europe

The TV market in Europe was highly competitive in 2004. Taking advantage of the LCD boom, private labels and small players in the market adopted low pricing strategies with the aim of capturing market shares quickly. Product prices were pushed down rapidly. Competition further intensified, especially focusing on 20" and 27" LCD TVs and approaching the end of the year also on 30" LCD TVs. Other high-end models such as plasma and DLP TVs were also under pressure, while sales of CRT TVs were gradually replaced by the sales of such high-end models.

In Europe, the Group distributes its products under “Thomson” and “Schneider” brands. For the five months ended 31 December 2004, a total of 1.5 million units of TVs were sold in Europe, of which Thomson and Schneider accounted for 85% and 15% respectively. Total revenue in Europe was HK$4.6 billion, accounting for 21% of the TV business turnover.

As for “Thomson” brand, the Group strived for profit margins and profitability, as compared to sheer volume growth, and chose not to participate in most of the aggressive price reductions initiated by private labels and small players. As a result, unit sales recorded a yearly decline and 1.3 million units were sold in the five months ending 31 December 2004. According to statistics from the GFK Panel, Thomson’s market share in Europe declined marginally to 6% in 2004. Nevertheless, gross margin improved to 18% during the period under review, as a result of the enhanced product mix, with increased flat-screen display TV sales, and good supply chain management.

One of the Group's key tasks for the European market in 2004 was to enhance its profitability. To the Group's satisfaction, "Thomson" brand business improved its profitability and posted an operating profit of HK$49 million, meeting the Group's target set out at the time of JV establishment. Continual product mix enhancement contributed to a moderate increase in overall average selling prices. Sales value of LCD, plasma and projection TVs accounted for 33% of the total "Thomson" brand sales.

The Group's business strategy in Europe was to move rapidly towards new technology TVs. Amongst the 142 new models launched in 2004, there were 24 LCD TVs, 4 plasma TVs, 6 projection TVs and 8 DLP TVs. The launch of the DLP Slim 61" model was supported by a TV advertising campaign in France, Spain, Sweden, Russia and Germany, which boosted its DLP product awareness and enhanced the brand image of Thomson.

On a relatively small business scale, Schneider recorded a 108% growth in unit sales in 2004, amounting to 225,000 sets, and generated a sales revenue of HK$465 million. The oversupply of LCD TVs in Germany and the rapid decline in LCD panel prices since the second quarter of 2004, however, led to product price reductions and significant decreases in gross margin. And as the sales volume of the Group's LCD TVs had yet to achieve economies of scale, Schneider's financial performance was adversely affected. In addition, Schneider recorded a write-off of HK$31 million for its inventory. The Schneider operation, as a result, incurred an operating loss of HK$132 million for the year ended 31 December 2004.

Nevertheless, the Board is optimistic of the long-term prospect of Schneider. Following the establishment of TTE, the Group expects that synergies, in terms of procurement, R&D and economies of scale, will be created in the European markets. The plan of moving the manufacture of Schneider brand TVs to the Poland plant was kicked off in the fourth quarter of 2004. In the future, Schneider's activity in Germany will be confined to a pure sales and marketing office. Benefiting from the global platform of TTE, the Group expects the Schneider operation to deliver substantial improvement in the coming year.

Going forward, for the European market, high-end TVs and large-sized LCD TVs in particular will be the high-growth areas. The Group will continue to deploy R&D resources to the development of LCD, projection and plasma TVs and introduce a wide range of LCD and plasma TVs in the first half of 2005.

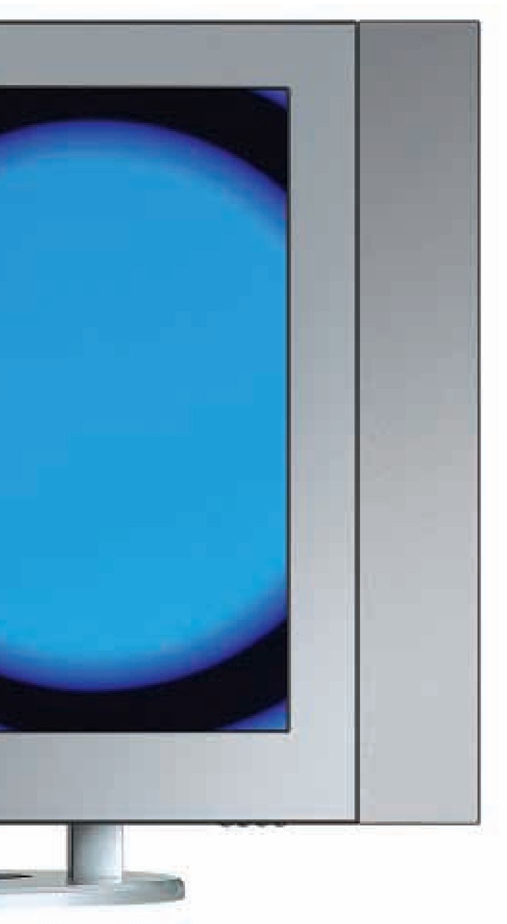
## North America

There was no lessening of competitive pressures in the North American market in 2004, much of which impacted pricing. There was an increasing trend for retailers to showcase Microdisplay Projection TVs, LCD TVs and plasma models. As in other developed countries, competition was driven towards high-end TV models, while sales of analog TVs declined.

In the North America, the Group sells products under "RCA" brand. For the five months ended 31 December 2004, TV unit sales from the North America amounted to 1.6 million units. Sales revenue for the same period amounted to HK$3.6 billion, accounting for 16% of the turnover from the TV business. According to Synovate, "RCA" brand enjoyed a market share of 8% for the first 11 months of 2004.

The Group began several important initiatives aimed at improving profitability in the North American market during the fourth quarter of 2004. As a first step to realize the synergies of this global venture, the Group began using TCL-designed chassis for TV models sold in the North America, and started selling TV models built in TCL's manufacturing bases in China. These moves, together with a series of cost control measures and decreases in component costs, lifted the gross margin to 16%, which is encouraging.

A total of 30 new models have been introduced since TTE commenced operations, including 11 DLP models and 8 projection digital models. The highlight amongst the new DLP models, as in the PRC and the European market, was the award winning 61" RCA Scenium model, the industry's first microdisplay TV capable of being wall-mounted.



The R&D labs located in Indianapolis continued to focus on developing microdisplay technologies targeted towards the mass market and establishing global leadership in the category. Current projects in the pipeline include new low-cost design concepts encompassing leading edge technology for applications in 2005 and beyond.

Demand for LCD TVs, plasma, Microdisplay and Digital TV products is expected to remain strong in 2005. To enhance the future competitiveness of "RCA" brand, a revitalization programme for the brand with the theme "Making Technology Affordable" will be launched via a coordinated effort encompassing the Internet, product packaging, retail support and advertising. Efforts will also be undertaken to strengthen the Group's relations with key distribution channels and customers.

## Emerging Markets

One of the growth engines for the Group's TV business is undoubtedly the emerging markets. During the year under review, unit sales from Emerging Markets exceeded 3 million units, representing an impressive growth of 31% as compared to 2003. Sales revenue amounted to HK$2.2 billion, accounting for 10% of total TV sales.

The Group rapidly extended its presence from the Southeast Asian markets to global emerging markets. Branch offices were established in India, Thailand, Australia and Mexico, and the formation of subsidiaries in the Middle East, South Africa and Latin America is also in the pipeline.

TCL TVs have developed leadership in certain markets and rank among the top three TV brands with double-digit market shares in Vietnam and the Philippines.

The Group strategically catered to the needs of different geographical markets with different product offerings. Conventional CRT products were the mainstream products sold in the Emerging Market division. Yet, high-end models such as LCD, plasma and projection TVs were introduced to some selected markets such as Australia and Latin America in order to test the market.

## Strategic OEM Business

One of the Group's core competitive edges lies in its capability for manufacturing quality products at highly competitive prices. Riding on this strength, its Strategic OEM business recorded an encouraging volume growth of 22% in 2004, with unit sales reaching 1.7 million sets. Sales revenues amounted to HK$1.0 billion, representing 5% of the total revenue from the TV business.

The Group is optimistic about its Strategic OEM business. Following TTE's formation, the Group is well positioned to benefit from enhanced economies of scale and R&D capabilities, to emerge as the global leader in the TV manufacturing industry.

## PC Business

The PRC PC market underwent consolidation in 2004. Dominated by international and leading domestic players, waves of price wars were initiated. Drastic price reductions were seen in desktop PCs and notebook computers.

The Group's PC business continued to focus on three areas, home PCs, commercial PCs and notebook computers. The PC business reported satisfactory results during the year under review. Total unit sales for the year amounted to 620,000 units, representing a growth of 17%. Desktop PCs and notebook computers accounted for 95% and 5% of total unit sales respectively. Sales revenue from the PC business for the year under review amounted to HK$2.0 billion, representing a growth of 11% and accounting for 8% of the total turnover. With an enhanced product mix, the gross margin posted a mild growth of 1% to 9%. Effective cost control measures as well as economies of scale resulted in improvements in operating margin.

With regard to home PCs, the Group launched three new product series, namely large display panel PCs (Ruixiang WK series "鋭翔WK系列"), entertainment PCs and "Ladies' PCs" (Ruixiang A series "鋭翔A系列"). Entertainment PCs mainly offer electronic game features and "Ladies' PCs" are specifically designed for ladies. Riding on TCL's core strength of TV manufacturing, the Group launched the first LCD TV PC model combining a wide viewing LCD display with multimedia 3C features, setting the highest standards for home PCs.

The Group also launched two new commercial PCs series, further enriching the list of products offered. The newly launched Jingding C series ("精鼎C系列") and Jingding E series ("精鼎E系列") were specifically designed to meet the needs of SMEs, offering multi-layered security functions and personalized applications for maximizing work efficiency.

Looking ahead, competition in the PRC PC market is expected to remain ferocious. Innovative products with 3C convergence functions offering online entertainment and TV functions with

LCD displays will be key attractions in the market. The Group will continue to leverage on its strong 3C convergence experiences to launch new products for meeting market needs.

## Audio-Visual Business

Year 2004 marked an important milestone in the Group's AV business with remarkable performances. The Group achieved a sales turnover of HK$1.3 billion, in which the PRC and overseas sales accounted for 10% and 90% respectively, representing in aggregate an impressive year-on-year growth of 248%.

The growth in sales volume brought forth benefits of economies of scale, and together with enhanced operating efficiencies, turned around the AV business. Its operating margin was 2% during the year under review.

The AV business is an integral part of the Group's multimedia consumer electronics business. Core products include DVD players, VCD players and other audio-visual products.

In the PRC, the Group launched a total of 11 new models including high definition DVD players, mobile DVD players and DVD recorders. Competitively priced, these new products were well received by consumers.

In addition to the PRC market, the Group also manufactures for its overseas OEM customers. During the year under review, to keep up with market changes, the Group developed some new products for its export market, including DVD recorders, and DVD PMPs embedded with a USB connector and hard disk. These new products were well received by customers and are expected to form revenue streams in the upcoming quarters.

## Handset Business

TCL Communication, the handset business arm owned 40.8% by the Group, was successfully listed on the mainboard of the Hong Kong Stock Exchange on 27 September 2004. The Group divested its stake in TCL Communication in the form of distribution of species. This strategic move enabled the Group and TCL Communication to focus on the development of their respective businesses.

2004 was a challenging year for handset manufacturers in China. International players continually introduced new models with innovative features to capture the high-margin market segment on the one hand and triggered price reductions for mid to low-end models to regain market share on the other. Caught up with such daunting challenges, TCL's performance in the domestic market was adversely affected. Outside China, the newly formed TCL-Alcatel joint venture commenced operations in September 2004 and has yet to achieve profitability.

## Financial Review

### Turnover Analysis

The TV business continued to be the major revenue source, accounting for 85% of the Group's total turnover, up from 82% in 2003 when the Group operated predominantly in the PRC and had limited exposure to global markets.

Geographically, the PRC, where the Group's headquarters are located, remained the major revenue stream for the year ended 31 December 2004. It accounted for 51% of the total turnover. This was followed by Europe and the North America which accounted for 19% and 14% of the total turnover respectively, The remaining revenue came from the rest of the world.

The relatively high turnover contribution from the PRC was partly due to encouraging sales growth from the market, and partly because contribution from other profit centres were not fully reflected as TTE only operated for 5 months in 2004. The Board anticipates that in 2005, the European and North American markets will take up an even larger proportion of TV sales under a full year operation. It is expected that sales outside the PRC will account for more than one half of the total TV sales of TTE, in 2005 and beyond.

### Gross Margin

The Group's overall gross margin increased from 16.4% in 2003 to 17.1% in 2004. The improvement was attributable to decreases in component prices, continual improvements in product mix and higher economies of scale. All these contributed to effective cost savings.

The Group's strong roots in China contributed to a relatively high gross margin as compared to that of its overseas operations.

### Operating Profit

For the year ended 31 December 2004, the Group recorded an operating profit of HK$497 million. As a result of the loss brought forth by TTE, particularly arising from the North American market and Schneider operations, the Group's operating margin declined from 3.4% to 1.9% despite substantial increases in turnover and gross profit. The decrease was partly compensated by operating profit from the Group's PC and AV business which in aggregate contributed an operating profit of HK$92 million.

The performance is broadly in line with the expectations of the Board of Directors.

| Gross Margin | FY2004 | FY2003 |
|---|---|---|
| TVs-Domestic | **22.2%** | 19.6% |
| TVs-Overseas | **15.2%** | 12.0% |
| PCs | **9.0%** | 8.0% |

| Operating Margin | FY2004 | FY2003 |
|---|---|---|
| TVs-Domestic | **5.2%** | 5.1% |
| TVs-Overseas | **-0.3%** | 2.9% |
| PCs | **3.1%** | 1.8% |

## Finance Charges

The Group's operations in Europe and the North America were mainly funded by the following means:

- A medium term loan up to a maximum of €100 million from Thomson. Interest was based on Thomson's financing costs, which amounted to approximately 2.32%.

- A long term syndication loan of US$180 million, at a rate of LIBOR plus 60 basis points

As a result, the Group's finance charges in 2004 increased by 100% to HK$66 million.

## Working capital

The Group manages its working capital efficiently. Various inventory and accounts receivable measures were employed in accordance with different business models in different profit centres. For the year ended 31 December 2004, inventory turnover further decreased to 36 days (2003: 51 days), as the Group exercised tighter inventory controls in Europe and North America as majority of the sales went to mega chain stores instead of distributors.

As the Group sells most of the products directly to mega chain stores in Europe and North America markets, longer credit terms were offered as a general practice. During the year under review, accounts receivable turnover increased to 55 days (2003: 36 days).

## Jointly Controlled Entities

As a result of the Company's plan to restructure its business portfolio to focus primarily on multi-media electronic products, TCL Communication, the holding company of TCL Mobile, separately listed on the Stock Exchange of Hong Kong on 27 September 2004. The Group successfully divested its 40.8% interest in TCL Communication by means of a special dividend to the shareholders which was satisfied by a distribution in specie of its entire interest in TCL Communication. Share premium of the Group was utilized to fund the distribution.

## Significant Investment and Acquisitions

Year 2004 represents a new era for the Group's internationalization process. Pursuant to the Combination Agreement signed at the beginning of 2004 between the Group and Thomson, TTE was formally established to combine the TV businesses of TCL and Thomson. TTE was held by the Group and Thomson as to 67% and 33% respectively.

It formally started its operations in early August last year. The initial net asset value of TTE was approximately HK$3,872 million, of which HK$1,910 million and HK$1,962 million was contributed by the Group and Thomson, respectively. A negative goodwill of approximately HK$598 million arose and is amortised on a straight line basis over the average remaining useful life of the acquired depreciable or amortizable assets.

In July 2004, the Company acquired from TCL Corporation 100% and 70% interest in Inner-Mongolia TCL Electrical Appliance Company Limited and TCL Digital Science and Technology (Wuxi) Company Limited, respectively ("Wuxi and Inner Mongolia Assets") at a total consideration of RMB231.5 million. The Wuxi and Inner Mongolia Assets were part of the Group's contribution into TTE as detailed above.

## Liquidity and Financial Resources

The Group's principal financial instruments comprise of bank loans, factorings, convertible notes, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain continuity in funding and flexibility at the Group's lowest cost. The cash and bank balances as at the year end amounted to HK$1.8 billion, of which 16% was maintained in Hong Kong dollars, 24% in US dollars, 23% in Renminbi, 27% in Euro and 10% held in other currencies for the overseas operations.

On 16 November 2004, the Company entered into an agreement ("Syndicated Loan Agreement") with a group of banks in relation to a dual currency term and revolving loan facility (the "Facility") of up to US$180 million. The term loan under the Syndicated Loan Agreement has a tenor of five years and is repayable in five equal semi-annual installments, commencing 36 months from the date of the Syndicated Loan Agreement with margin of 0.6% per annum above the inter-bank offer rate. The purpose of the Facility is to fund the operations of TTE. As at the year end, the Facility was fully drawn down.

Pursuant to a receivable purchase and sales agreement, to ensure the smooth running of TTE, Thomson agreed to purchase, on a rolling basis, up to a maximum outstanding amount of €100 million of the trade accounts receivables of TTE and its relevant subsidiaries. Such outstanding amount shall, from the first anniversary of commencement of operation of TTE, be reduced by 1/12 at the end of each month. The facility has been fully utilized and the balance at the year end amounted to HK$1.0 billion.

Save as disclosed above, there was no material change in available credit facilities when compared with the year ended 31 December 2003 and there was no asset held under finance lease at the year end. Convertible notes were subject to a fixed interest rate of 3% per annum.

As the distribution in specie of shares of TCL Communication was defined as capital distribution, in accordance with the terms of the convertible notes, the conversion price of the convertible notes was adjusted from HK$2.556 per share to HK$2.06 per share. At year end, a total of HK$256 million worth of convertible notes remained outstanding which entitled the holders to convert into 124,271,844 shares at the new conversion price of HK$2.06 per share.

At the year end, the Group's gearing ratio was 0.65 which is calculated based on the Group's net borrowing of HK$1,896 million (calculated as total interest-bearing borrowings less cash and bank balances) and the shareholders funds of HK$2,931 million.

## Financial Risk Management

The Group enters into hedging transactions, principal interest rate swaps and forward currency contracts with the purpose of managing the interest rate and currency risks arising from TTE's operations and its sources of finance.

### Interest rate risk

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

The Group manages all bank debt at a corporate level and acquires appropriate external financing to meet the borrowing needs of all subsidiaries. The subsidiaries either borrow funds from the head office of TTE at a short-term floating rate basis, or borrow from local banks at short term basis under the close monitoring and supervision of the head office. Long-term and fix rate bank debts are done at a corporate level and the exposure thereof shall be hedged by TTE case by case in a cost-efficient manner. The Group's policy is to manage its interest exposure using a mix of fixed and variable rate debt.

### Foreign currency risk

Due to its international presence and operations, the Group is facing foreign exchange exposure including transactional exposure and translational exposure.

It is the Group's policy to centralize foreign currency management to be able to monitor the Company's total foreign currency exposure, to net offsetting affiliate positions and consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging.

# FOCUS ON Advanced Technology


# Directors and Senior Management


Mr. LI Dong Sheng


Mr. ZHAO Zhong Yao


Ms. LU Zhong Li


Mr. YAN Yong, Vincent


Mr. HU Qiu Sheng


Mr. SUEN Hay Wai, Felipe


Mr. Albert Thomas DA ROSA, Junior




## Executive Directors

**Mr. LI Dong Sheng**, 47, is the founder and chairman of the Group. He is responsible for formulating corporate strategy and leading the Group's management. He was awarded the following titles:

1994: "Distinguished Contributor to Development of PRC Electrical Appliance Industry"
1995: "National Excellent Young Entrepreneur"
2000: "Model of National Work Force"
2002: Representative of the 16th Central Committee of the Communist Party
"CCTV Man of the Year in the Chinese Economy"
"Annual Innovation Award"
2003: Delegate of the 10th National People's Congress
One of the most influential entrepreneurs by magazine "China Entrepreneur"
2004: "CCTV Man of the Year in the Chinese Economy"
One of the worldwide most influential business leaders by Time and CNN
French National Honor Metal (OFFICIER DE LA LEGION D'HONNEUR)

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

**Ms. LU Zhong Li**, 59, is 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.

**Mr. HU Qiu Sheng**, 45, is responsible for the component business of TCL Corporation. Mr. Hu has over 20 years of experience in development product technology, product research and sales. He joined the Group in 1993 and became the first general manager of the TV business in 1999. He was then appointed the president of Multimedia Product Division in 2002 and has held the position as senior vice president of TCL Corporation since 2003. He is an engineer and graduated with a Bachelor of Science Degree from Huanan Polytechnic University.

**Mr. ZHAO Zhong Yao**, 43, is currently director and vice president of TCL Corporation. He is also the chief executive officer of TTE. Mr. Zhao has over 12 years experience in sales, marketing and management of consumer electronics business. Mr. Zhao graduated with a bachelor's and a master's degrees in Automatic Control – Electrical Engineering from Northwestern Polytechnic University of PRC.

**Mr. YAN Yong, Vincent**, 42, joined TCL Group in 1999. He is currently the managing director and chief financial officer of the Group as well as the chief financial officer of TTE. He is responsible for all facets of finance, tax, legal and compliance functions, as well as strategic business development for the Group. His additional roles include being executive director at TCL Communication. Prior to joining TCL, he was vice president and China country manager of Tulips Computers (Asia) Limited. Mr. Yan holds an MBA from Standford University and a MS in Computer Science from Peking University. He has over 10 years of management and finance experience in the US and China.

**Mr. SUEN Hay Wai, Felipe**, 49, holds the position of general manager of operations at the Group and is also executive vice president of TTE. In his present capacity, Mr. Suen is responsible for general management, legal and administrative functions. He has more than 20 years' management experience with multinational and public-listed companies. Prior to joining TCL, he was general manager of AST Computers, a US corporation. He graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Business Administration.

## Non-Executive Directors

**Mr. Albert Thomas DA ROSA, Junior**, 51, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is also a fellow of the Chartered Institute of Arbitrators and a member of the Hong Kong Securities Institute. He graduated with a Bachelor's Degree in laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also non-executive director and company secretary of certain other companies listed on The Stock Exchange of Hong Kong. He also serves as a member of the Solicitors Disciplinary Tribunal Panel and as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission.

**Mr. TANG Guliang**, 44, is a certified public accountant in the PRC and a vice secretary-general of the Accounting Society of China. Mr. Tang is professor at Beijing Technology and Business University. Mr. Tang also holds directorships in several listed companies in the PRC.

**Mr. WANG Bing**, 37, graduated from China Europe International Business School with a master's degree in business administration. Mr. Wang has over 10 years of experience in finance, investment, operation in capital market and assets management and is the chief executive officer of Dingtian Assets Management Co. Ltd.

**Dr. HON Fong Ming, Perry**, 39, graduated from Peking University and had been a post-doctorate fellow at Harvard University. Dr. Hon is the founder and major shareholder of the Dragoncom group and also holds directorships in many other listed companies, banks and financial institutions, with more than 10 years' experience in the capital market as well as mergers and acquisition operation in both China and overseas. Dr. Hon is a member of the National Committee of the Chinese People's Political Consultative Conference.

## Senior Management

**Mr. Al ARRAS**, 55, president of TTE. Mr. Arras manages TTE's RCA-branded television operations in the North America, and also the company's R&D initiatives and global product management. Prior to his current position at TTE, he was the senior executive vice president for Thomson's Audio, Video and ATLINKS (consumer telephones) businesses. A 30-year consumer electronics veteran and a long-time Thomson executive, Mr. Arras was in-charge of integrating Thomson's TV operations within the TTE organization. Mr. Arras is an engineering graduate of Cornell University.

**Mr. CHO Ki Song**, 56, chief operating officer of TTE. Mr. Cho is responsible for overseeing TTE's European operations, also its manufacturing, sourcing and supply chain functions. Prior to joining TTE, Mr. Cho was deputy chief executive officer and chief operating officer of LG Philips Displays. During his 28-year tenure at LG Electronics, Mr. Cho had stationed in the North America, Latin America, Europe and Asia, driving the company's international expansion. Mr. Cho holds a bachelor's degree in economics from Seoul National University.

**Mr. SHI Wan Wen**, 38, president of TCL Multimedia Electronics Business Unit, executive vice president and president of the PRC Profit Centre at TTE. He is also responsible for assisting the management of worldwide R&D centers and product planning center. Joining the group in 1990, he has 17 years of experience in the manufacturing industry. He graduated with a Bachelor Degree from Huanan Polytechnic University.

**Dr. YI Chun Yu, Terry**, 38, president of TCL Corporation Overseas Business Unit and executive vice president of Emerging Market Profit Center of TTE. Dr. Yi joined TCL Corporation in 1996 and has almost 10 years of experience in international expansion and overseas business management. He graduated from Huazhong Agricultural University and majored in investment analysis.

**Mr. YU Guang Hui**, 36, is currently vice president of TCL Multimedia Business Unit and Overseas Business Unit. He is also holding the position of executive vice president of Strategic OEM Profit Center, Supply Chain Management and Sourcing Center of TTE. After Mr. Yu joined the Group in 1993, he had worked in the Joint Venture Company between TCL and LGE and has more than ten years of experience in production planning and materials procurement and management. He was one of the persons-in-charge in the early construction and management of the TCL King colour television's production base. He graduated from the Shaanxi Normal University with a MS in Physics and is currently pursuing a MBA at Peking University.

**Mr. Jean-Marie DUBOC**, 52, is deputy chief financial officer of TTE. Prior to joining the company, he has worked for Thomson group for 25 years, in which, he held various positions in finance, in France, US and Singapore. He is now responsible for finance, accounting, tax, treasury and audit under the supervision of the CFO. Jean-Marie graduated from Rouen Business school and holds a French DECS.

**Mr. Jean Claude FAVREAU**, 55, holds the position of chief technology officer of TTE. In his present capacity, Mr. Favreau is responsible for TTE's R&D integration with the objective of effectively delivering competitive new products to the five profit centers worldwide. He has more than 30 years of TV R&D experience with Thomson. He successively held positions in France, Singapore, Germany, and US, respectively as R&D engineer, TV project manager, R&D site manager and vice president for TV R&D. He graduated from the French Ecole Supérieure d'Electronique of Angers.

**Mr. CHAN Ying Keung, Simon**, 49, corporate controller of TTE, joined the Group in May 2004. Mr. Chan is responsible for the accounting and finance activities of TTE. He has more than 25 years' finance and accounting experience in multinational and public-listed companies. Prior to joining TTE, he was group controller of Johnson Electric Holdings Ltd. He holds a MBA degree from the University of Warwick in UK. He is a member of both the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants.

**Mr. Chikao YAMANE**, 65, production technology director of the Group, joined TCL in 2000. Mr. Yamane has a wealth of experience in the design and improvement of production process, productivity enhancement, product quality enhancement, product safety and reliability. He was with Toshiba Corporation for more than 40 years and was assistant general manager of Toshiba Dalian Co., Ltd.

**Ms. ZENG Yan Ling**, 42, vice president of the TCL Multimedia Business Unit, is responsible for investment management as well as the Group's financial, administrative and back office management. Ms. Zeng graduated from the Jiangxi University of Finance & Economics with a Bachelor's degree in Economics and is an experienced accountant. She joined TCL in 1993 and worked as finance manager of TCL Audio-Visual Electronics Co Ltd, later was appointed as the assistant officer of Finance and Clearing Centre and the head of Finance Department of TCL Corporation. Prior to joining TCL, Ms. Zeng was the head of and a Lecturer in the Finance Department of Jiangxi University. She has almost 20 years of experience in accounting, taxation, finance and capital management.

**Ms. LAM Man Ying, Portia**, 38, financial controller, joined the Group in September 2000 and has more than 10 years of experience in auditing, accounting and finance. Prior to joining the Group, she was a manager of Ernst & Young. Ms. Lam is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

# Corporate Governance

The Board of Directors of TCL Multimedia Technology aims to achieve the highest standards 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, staff and customers.

## Board of Directors

The Board of Directors 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.

The Board consists of 10 directors, including 6 executive directors, 1 non-executive director and 3 independent non-executive directors. They meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans.

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

For the year ended 31 December 2004, 2 full board meetings were held whereby the views of executive and non-executive directors were exchanged on the overall performance and future planning of the Group.

## Audit Committee

The audit committee of the Board, which consists of 3 independent non-executive directors and 1 non-executive director, meets at least 4 times a year to review the Group's quarterly, interim and annual results. 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 is also responsible for reviewing the truthfulness, completeness and accuracy of the Group's financial statements, and for assessing the scope of work of external auditors.

For the year ended 31 December 2004, a total of 4 audit committee meetings were held.

## Corporate Transparency

The Group maintains a high level of corporate transparency and has frequent interactions with shareholders, investors and media through different channels. Apart from interim and annual results announcements made in accordance with requirements of the Listing Rules of the Main Board, the Group has moved further beyond mere compliance and has volunteered to issue additional quarterly results since 2001.

Moreover, in order to provide investors with more information for evaluating the Group's performance in a more timely manner, the Group made a further step to release monthly shipment data of its core products on its corporate website. The disclosure is voluntary and beyond regulatory requirements. While such practice is not common for companies listed on the Stock Exchange of Hong Kong, our move was welcomed by investors and shareholders.

The Group also posts its latest corporate developments, announcements, financial reports, press releases, etc. on its corporate website, keeping shareholders and the public abreast of the Group's developments in a timely manner.

## Investor Relations

The Group has a dedicated investor relations department to maintain frequent dialogues with investors and shareholders. Headed by the managing director, Mr. YAN Yong, Vincent, the department fosters close contacts with investors and shareholders. Regular meetings and conference calls with investors, shareholders and the media are held for exchanging views. Such interaction not only enables investors to better understand the Group's business development but also allows the management to gain feedback on its strategic corporate moves.

During the year under review, the Group completed the establishment of a world-class joint venture, TTE with Thomson Group. The event became a major focus in the investment community. In maintaining an open dialogue with investors, the Group organized a conference call in May

2004 when the Group reached an agreement with Thomson on certain major transactions concerning TTE. Throughout the year, investors monitored the progress of TTE closely and the Group tried its best to address their concerns in an open and transparent way.

For the year ended 31 December 2004, the investor relations department participated in the following activities:

- 218 one-on-one investor meetings
- 7 international conferences and roadshows in Singapore, the US and Europe
- 16 investor teleconferences
- 3 corporate presentations and 2 media conferences

The Group is pleased to see that its efforts in investor relations received high recognition from the investment community. The following honourable awards were received during the year ended 31 December 2004:

- 2004 Asian Investor Relations Perception Study conducted by the "Institutional Investor Research Group", ranking by sell-side analysts:
  - Mr. LI Dong Sheng, Chairman was ranked as the 7th Best CEO amongst 25 Asian peers, and the best CEO of a Chinese enterprise
  - Mr. YAN Yong, Vincent, Managing Director, was ranked as the 6th Best CFO amongst 26 Asian peers
  - Ms. YAU Sheung Nei, Shirley and Ms. LAU Lai Man, Connie of the Investor Relations Department, were ranked as the 2nd and the 9th Best IR Professionals amongst 40 Asian peers

Looking forward, the Group will continue to strengthen its corporate governance and accountability mechanisms. With a passion to excel and a commitment to outperform, the Board of Directors and all staff at TCL Multimedia will work towards the goals of creating value for shareholders,

providing opportunities for staff, bringing fulfillment to customers, and making contribution to society.

## Human Resources

The Group has a dedicated staff force of 33,000 talented employees. Recognizing human resources as one of the most valuable assets of the Group, the Group offers well-structured and performance-based remuneration, comprehensive training, good working environment as well as career development opportunities to attract and retain staff who are committed to not just fulfilling but excelling in their respective capacities.

TCL Corporation, the Group's parent company, enjoys the reputation as an outstanding employer. It has recently been recognized as a Corporation with Best Employee Growth Value in the PRC. Sharing the parent company's values of "Trust" and "Teamwork", TCL Multimedia promotes the same belief with a strong emphasis on teamwork across the entire organization, and encourages the establishment of trust and sense of belonging among our employees.

The Group cultivates a learning culture and promotes life-long learning. A full range of workshops and training courses together with the provision of educational subsidies were offered to staff with outstanding performances during the year under review. The response to such training and subsidies were highly positive.

## Social Responsibility

As a responsible corporate citizen, the Group supports and has sponsored various forms of social and community activities. "Contributing to Society with the Wealth Gained Therein", the Group, together with TCL Corporation, its parent company, made contributions to society, with three major areas in focus — education, sports and poverty. Contributions were made in monetary terms as well as supportive actions to the full.

Immediately following the tsunami disaster, the Group, together with its parent company, donated RMB 3 million to the Guangzhou Branch Red Cross Society of China to help the tsunami victims.

In line with our corporate philosophy of "Creating Benefits for Society", we all at TCL will continue to undertake our responsibilities.

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# Corporate Information

## Board of Directors

### Chairman
Mr. LI Dong Sheng

### Executive Directors
Ms. LU Zhong Li
Mr. HU Qiu Sheng
Mr. ZHAO Zhong Yao
Mr. YAN Yong, Vincent
Mr. SUEN Hay Wai, Felipe

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

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

## Company Secretary
Ms. PANG Sin Yin, Solicitor, Hong Kong
Cheung, Tong & Rosa
Room 1621–33, 16/F
Sun Hung Kai Centre
30 Harbour Road
Hong Kong

## Principal Bankers
ABN AMRO Bank N.V.
Agriculture Bank of China
Bank of China (Hong Kong) Limited
The Bank of East Asia, Limited
BNP Paribas Hong Kong Branch
Commerz (East Asia) Limited
Societe Generale Asia Limited
Sumitomo Mitsui Banking Corporation
Wachovia Bank, N.A.

## Auditor
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## Principal Registrar
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## Branch Registrar
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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 2004.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 103.

The directors recommend the payment of a final dividend of 4 HK cents per share in respect of the year to shareholders on the register of members on 6 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## 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 adjusted as appropriate, is set out on page 104. This summary does not form part of the audited financial statements.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 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 therefor, are set out in note 35 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK$2,446,042,000, of which HK$110,346,000 has been proposed as a final dividend for the year. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

## 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 | 26% |
| Sales | |
| — the largest customer | 7% |
| — the five largest customers combined | 14% |

Companies controlled by a minority shareholder of a subsidiary of the Company are the Group's three largest suppliers. Save as disclosed above, none of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

## DIRECTORS

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

**Executive directors:**

| | |
|---|---|
| Li Dong Sheng (Chairman) | |
| Yuan Xin Cheng | (resigned on 18 May 2004) |
| Lu Zhong Li | |
| Hu Qiu Sheng | |
| Zhao Zhong Yao | (appointed on 18 May 2004) |
| Yan Yong, Vincent (Managing Director) | |
| Suen Hay Wai, Felipe | |

**Non-executive director:**

| | |
|---|---|
| Albert Thomas da Rosa, Junior | (re-designated as non-executive director on 30 September 2004) |

**Independent non-executive directors:**

| | |
|---|---|
| Tang Guliang | (appointed on 30 September 2004) |
| Wang Bing | (appointed on 30 September 2004) |
| Hon Fong Ming | |

In accordance with article 99 of the Company's article of association, Zhao Zhong Yao's appointment will cease at the conclusion of the forthcoming annual general meeting and he, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 116 of the Company's articles of association, Li Dong Sheng, Hu Qiu Sheng and Suen Hay Wai will retire by rotation, and Li Dong Sheng and Hu Qiu Sheng, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors will cease to hold such office at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS (continued)

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.

## 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 28 to 32 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 2004, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### (i) Long positions in shares of the Company

| Name of directors | Type of interest | Number of shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Li Dong Sheng | Beneficial owner | 28,232,000 | 1.02 |
| Zhao Zhong Yao | Beneficial owner | 232,000 | 0.008 |

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

| Name of directors | Type of interest | Number of shares involved | Percentage of the Company's issued share capital |
|---|---|---|---|
| Zhao Zhong Yao | Beneficial owner | 68,000 | 0.003 |
| Yan Yong, Vincent | Beneficial owner | 68,000 | 0.003 |
| Suen Hay Wai, Felipe | Beneficial owner | 234,000 | 0.008 |

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

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

| Name of directors | Name of associated corporation | Number of shares held | Type of interest | Percentage of the associated corporation's issued share capital |
|---|---|---|---|---|
| | (Notes) | | | |
| Li Dong Sheng | TCL Corporation | 144,521,730 | Beneficial owner | 5.59 |
| Li Dong Sheng | TCL Communication | 18,080,800 | Beneficial owner | 0.64 |
| Lu Zhong Li | TCL Corporation | 23,569,661 | Beneficial owner | 0.91 |
| Hu Qiu Sheng | TCL Corporation | 19,012,888 | Beneficial owner | 0.74 |
| Zhao Zhong Yao | TCL Corporation | 6,434,031 | Beneficial owner | 0.25 |
| Zhao Zhong Yao | TCL Communication | 92,800 | Beneficial owner | 0.003 |
| Suen Hay Wai | TCL Communication | 113,600 | Beneficial owner | 0.004 |

Notes:

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

(b) TCL Communication Technology Holdings Limited ("TCL Communication"), a company controlled by TCL Corporation, is a fellow subsidiary of the Company.

Save as disclosed above, as at 31 December 2004, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 35 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

Concerning the share options granted during the year, as detailed in note 35 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful.

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

At 31 December 2004, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions in shares of the Company:**

| Name | Type of interest | Number of shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| TCL Corporation | Through an interest of controlled corporation | 1,512,121,289 (Note) | 54.83 |

Note: TCL Corporation was deemed to be interested in 1,512,121,289 shares in the Company held by T.C.L. Industries Holdings (H.K.) Ltd., a direct wholly-owned subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2004, 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 share or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CONNECTED TRANSACTIONS

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

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

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

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 2004:

(a) The Company entered into the Combination Agreement dated 28 January 2004 (the "Combination Agreement") with TCL Corporation and Thomson under which the Company and Thomson agreed to combine their respective TV businesses and assets under the ownership and management of TTE.

(b) TCL Holdings (BVI) Limited ("TCL BVI") (a subsidiary of the Company) entered into the agreement dated 28 May 2004 with T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries") (a wholly-owned subsidiary of TCL Corporation) under which TCL BVI purchased from TCL Industries a 70% equity interest in TCL Digital Science and Technology (Wuxi) Company Limited ("Wuxi Co") at a consideration of RMB105.7 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 70% equity interest in Wuxi Co and inject the same into TTE.

**CONNECTED TRANSACTIONS (continued)**

(c) TCL BVI entered into an agreement dated 28 May 2004 with TCL Corporation and TCL Home Appliances (Huizhou) Company Limited (a wholly-subsidiary of TCL Corporation) under which TCL BVI acquired the 100% equity interest in Inner Mongolia TCL Electrical Appliance Company Limited ("Inner Mongolia Co") at a consideration of RMB125.8 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 100% equity interest in Inner Mongolia Co and inject the same into TTE.

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 2004:

(a) Pursuant to the Overseas Distribution Agreement dated 9 May 2002 entered into between TCL Overseas Holdings Limited (a subsidiary of the Company) and TCL Corporation and certain of its subsidiaries in connection with the distribution of white goods in territories other than the PRC, the Group purchased finished goods amounting to HK$38,860,000 during the year.

(b) The Company entered into the Master Overseas Supply Agreement dated 29 December 2004 with TCL Corporation under which the Company and its subsidiaries will enter into transactions with TCL Corporation and its subsidiaries (the "Supplier Group") for purchase of any electronic or electrical goods or appliances manufactured, produced or otherwise sold or supplied by any member of the Supplier Group for supply or sale to a place in any territories other than the PRC. The Master Overseas Supply Agreement when becoming effective (on 22 February 2005) would replace the Overseas Distribution Agreement dated 9 May 2002 (the "Existing Agreement"). The suppliers under the Existing Agreement are confined to certain entities within the Supplier Group whereas the suppliers under the Master Overseas Supply Agreement covered all members of the Supplier Group. The purchasers under the Existing Agreement are confined to TCL Overseas Holdings Limited and its subsidiaries whereas the purchasers under the Master Overseas Supply Agreement covered all members of the Group.

As the Master Overseas Supply Agreement became effective on 22 February 2005, during the year, no goods was purchased by the Group from the Supplier Group under this agreement.

(c) Pursuant to the PRC Distribution Agreement dated 9 May 2002 entered into between TCL Electrical Appliance Sales Co., Ltd. (a subsidiary of the Company) and TCL Corporation and certain of its subsidiaries in connection with the distribution of white goods in the PRC, handling fee income receivable by the Group amounted to HK$858,000 during the year.

(d) Pursuant to the Master Supply Agreement dated 20 December 2001 entered into between TCL Overseas Holdings Limited and Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile") in connection with the distribution of goods manufactured, produced or sold by TCL Mobile in the territories other than the PRC, the Group purchased finished goods amounting to HK$2,641,000 during the year.

(e) Pursuant to the Master Supply Agreement dated 15 November 1999 entered into between the Company and TCL Corporation, the Group (i) purchased TV related components and materials from TCL Corporation and certain of its subsidiaries amounting to HK$248,468,000 and; (ii) sold raw materials to certain subsidiaries of TCL Corporation amounting to HK$11,792,000 during the year.

**CONNECTED TRANSACTIONS (continued)**

(f) Pursuant to the Distribution Agreement dated 15 November 1999 entered into between the Company and TCL Electrical Appliance Sales Co., Ltd. ("Sales Co.") (a company which is owned as to 49% by TCL Corporation) and revised on 11 December 2002, the services fees and/or commissions paid by the Group to Sales Co. amounted to HK$435,226,000 during the year.

(g) The Group used subcontracting services provided by a subsidiary of TCL Corporation, for which subcontracting fees amounting to HK$16,926,000 were paid during the year.

(h) TTE entered into the Thomson Styling Services Agreement dated 30 July 2004 with Thomson under which TTE will subcontract selected styling services (including industrial and other designs of TV products) to Thomson as an exclusive styling service provider in respect of all TV products of TTE and its subsidiaries bearing or marketed under the "Thomson" or "RCA" trademarks. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

The service fees payable are based on annual service fee budget mutually determined by the parties based on the estimated actual costs of Thomson in providing the styling services, which costs shall not exceed the service fees charged by competing styling providers for comparable styling services.

During the year, HK$18,980,000 has been paid by the Group to Thomson for the styling services.

(i) TTE entered into the Thomson Strategic Sourcing Agreement dated 30 July 2004 with Thomson under which TTE will utilise certain information systems at the ex-Thomson sites until 31 December 2005 to facilitate its sourcing activities. After 31 December 2005, TTE will evaluate whether the use of the foregoing information systems should be continued. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

TTE will pay Thomson an annual fee of approximately HK$26.79 million for the use of the above-mentioned information systems. During the year, HK$11,848,000 has been paid by the Group to Thomson for the purpose.

(j) TTE entered into the Patent License Agreement — Color Television Receivers dated 30 July 2004 with Thomson Licensing SA ("TLSA") (a wholly-owned subsidiary of Thomson) under which TLSA will grant to TTE and its subsidiaries a non-exclusive, non-transferable, non-assignable, indivisible and non-sublicensable license, right and privilege under all of the patents owned, controlled and/or acquired by TLSA during the terms of the agreement to make, lease and sell analog colour television receivers. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

TTE will pay royalties to TLSA, on a quarterly basis, in respect of all units of the colour television receivers with the rate ranges that are consistent with the rates offered by Thomson to other television manufacturers and vary according to the country in which the colour television receivers are manufactured. During the year, HK$18,670,000 has been paid by the Group to Thomson as royalties.

**CONNECTED TRANSACTIONS (continued)**

(k) TTE entered into the Receivables Purchase and Sales Agreement dated 30 July 2004 with Thomson under which Thomson has agreed to purchase, on a rolling basis, up to a maximum outstanding amount of Euro100 million of the trade accounts receivable of TTE and its relevant subsidiaries. Such outstanding amount shall, from the first anniversary of closing of the Combination Agreement (i.e. 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement. At the year end, the aggregate amount of receivable outstanding amounted to HK$1,033,796,000.

(l) TTE entered into the Thomson Trademark License Agreement dated 30 July 2004 with Thomson under which Thomson has agreed to grant to TTE and certain of its subsidiaries for 20-year term non-sublicensable and non-transferable license to use certain of its registered trademarks including "Thomson", "RCA", "Scenium", "LiFE" and "SABA" for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

No royalties shall be payable by TTE to Thomson prior to the end of the second anniversary of the closing of the Combination Agreement. During the year, no royalty payment has been made, and reimbursement of branding advertising costs amounting to HK$11,973,000 has been made by the Group to Thomson.

(m) TTE entered into the North America Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson Inc. (a wholly-owned subsidiary of Thomson) under which TTE has agreed to appoint Thomson Inc. as an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in the USA and Canada, and with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in Mexico. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK$202,796,000 has been paid by the Group to Thomson as services fees and costs reimbursement.

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

During the year, HK$252,181,000 has been paid by the Group to Thomson as services fees and costs reimbursement.

**CONNECTED TRANSACTIONS (continued)**

(o) TTE entered into the Agreement relating to Thomson Television Angers dated 30 July 2004 with Thomson under which TTE has agreed to engage the production capacity of Angers Factory for part of its requirements over a period of five years (provided that TTE shall incur no loss and realise no profit from this arrangement), which will give Thomson time to reorganise its operation at that plant. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK$1,024,748,000 has been paid by the Group to Thomson for the purchases of TV products.

(p) TTE entered into the Thomson Preferred Supplier Agreement dated 30 July 2004 with Thomson under which TTE has agreed to appoint Thomson as one of the only two preferred suppliers for certain components and shall give priority to Thomson for the supply of the said components. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK$1,738,305,000 has been paid by the Group to Thomson for purchase of components.

(q) 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. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

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

(r) TTE entered into the PRC Sales and Marketing Agency Agreement dated 30 July 2004 with Sales Co. under which TTE has agreed to appoint Sales Co as (i) an exclusive sales and marketing agent to provide a whole range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE sold or designated to be sold in the PRC, and (ii) an exclusive distributor to purchase all TV end-products for resale in the PRC. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK$425,939,000 has been paid by the Group to Sales Co. as services fees and costs reimbursement.

(s) TTE entered into the TCL Preferred Supplier Agreement dated 30 July 2004 with TCL Corporation under which TTE has agreed to appoint TCL Corporation as one of the only two preferred suppliers for certain components and shall give priority to TCL Corporation for the supply of the said components. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK$266,191,000 has been paid by the Group to TCL Corporation for the purchases of components.

**CONNECTED TRANSACTIONS (continued)**

Save and except the above-mentioned connected transaction and continuing connected transactions, all "Related Party Transactions" as set out in note 41 to the financial statements do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules. The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A (or Chapter 14 prior to the coming into force of 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.

Furthermore, the auditors of the Company have confirmed to the board of directors of the Company (the "Board") that the above-mentioned continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions;

(iii) have not exceeded the relevant caps disclosed in the previous announcements (where applicable); and

(iv) are in accordance with the pricing policies of the Group where the transactions involved the provision of goods or services by the Group.

**DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES**

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

**POST BALANCE SHEET EVENT**

Details of the significant post balance sheet event of the Group are set out in note 42 to the financial statements.

**CODE OF BEST PRACTICE**

In the opinion of the directors, throughout the accounting period covered by the annual report, the Company complied with the Code of Best Practice as then set out in Appendix 14 of the Listing Rules which was in force during the period.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Board has adopted a new code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2004.

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDIT COMMITTEE

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

## AUDITORS

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

ON BEHALF OF THE BOARD

**Li Dong Sheng**
*Chairman*

Hong Kong
16 April 2005

# Report of the Auditors

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 49 to 103 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

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

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
Certified Public Accountants

Hong Kong
16 April 2005

# Consolidated Profit and Loss Account
Year ended 31 December 2004

| | Notes | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| TURNOVER | 5 | **25,599,840** | 15,148,652 |
| Cost of sales | | **(21,225,303)** | (12,671,516) |
| Gross profit | | **4,374,537** | 2,477,136 |
| Other revenue and gains | | **162,203** | 86,675 |
| Selling and distribution costs | | **(2,825,919)** | (1,397,841) |
| Administrative expenses | | **(866,404)** | (552,617) |
| Research and development costs | | **(264,403)** | (56,895) |
| Other operating expenses | | **(68,146)** | (50,412) |
| Gain/(loss) on disposal of subsidiaries | | **(2,075)** | 1,331 |
| Impairment of a long term investment | | **(13,011)** | — |
| PROFIT FROM OPERATING ACTIVITIES | 6 | **496,782** | 507,377 |
| Finance costs | 7 | **(65,715)** | (32,929) |
| Share of profits and losses of jointly-controlled entities | 10 | **94,516** | 337,675 |
| Amortisation of goodwill on acquisition of jointly-controlled entities | 19 | **(57,321)** | (78,433) |
| Impairment of short term investments (previously a jointly-controlled entity) | 27 | **(29,026)** | — |
| PROFIT BEFORE TAX | | **439,236** | 733,690 |
| Tax | 11 | **(143,563)** | (84,093) |
| PROFIT BEFORE MINORITY INTERESTS | | **295,673** | 649,597 |
| Minority interests | | **21,041** | (7,748) |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 12 | **316,714** | 641,849 |
| DIVIDENDS | 13 | | |
| Interim | | **110,316** | — |
| Distribution in specie | | **1,351,585** | — |
| Proposed final | | **110,346** | 272,000 |
| EARNINGS PER SHARE | 14 | | |
| Basic | | **11.57 cents** | 24.21 cents |
| Diluted | | **9.08 cents** | 23.28 cents |

# Consolidated Balance Sheet
31 December 2004

| | Notes | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 15 | **2,448,404** | 868,919 |
| Trademarks | 16 | **26,506** | 27,744 |
| Goodwill | 17 | **206,639** | 244,539 |
| Negative goodwill | 17 | **(548,016)** | — |
| Interests in jointly-controlled entities | 19 | **146,375** | 1,653,375 |
| Long term investments | 20 | **42,301** | 1,682 |
| Long term receivables | 21 | **283,814** | — |
| Prepayment for the acquisition of a subsidiary | | **—** | 47,815 |
| Prepaid royalty | 22 | **620,368** | — |
| Deferred tax assets | 33 | **18,583** | 8,855 |
| | | **3,244,974** | 2,852,929 |
| CURRENT ASSETS | | | |
| Inventories | 23 | **4,565,500** | 2,441,500 |
| Trade and bills receivables | 24 | **5,812,543** | 1,941,137 |
| Other receivables | 26 | **1,318,452** | 359,569 |
| Tax recoverable | | **11,266** | — |
| Short term investments | 27 | **116,894** | — |
| Pledged bank deposits | | **—** | 5,199 |
| Cash and bank balances | | **1,833,272** | 1,069,562 |
| | | **13,657,927** | 5,816,967 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 28 | **6,649,213** | 2,966,659 |
| Tax payable | | **110,838** | 53,543 |
| Other payables and accruals | | **1,656,962** | 684,235 |
| Provisions | 29 | **239,877** | — |
| Bank borrowings | 30 | **570,119** | 113,929 |
| Due to a minority shareholder | 31 | **430,748** | — |
| Due to the ultimate holding company | 25 | **246,965** | — |
| Convertible notes | 32 | **256,000** | — |
| | | **10,160,722** | 3,818,366 |
| NET CURRENT ASSETS | | **3,497,205** | 1,998,601 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **6,742,179** | 4,851,530 |

| | Notes | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 30 | **1,622,134** | 282,353 |
| Due to a minority shareholder | 31 | **603,048** | — |
| Convertible notes | 32 | **—** | 347,000 |
| Deferred tax liabilities | 33 | **33,989** | 1,847 |
| Pensions and other post-employment benefits | 34 | **130,050** | — |
| | | **2,389,221** | 631,200 |
| MINORITY INTERESTS | | **1,422,082** | 100,079 |
| | | **2,930,876** | 4,120,251 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 35 | **275,796** | 268,133 |
| Reserves | 36 | **2,544,734** | 3,580,118 |
| Proposed final dividend | 13 | **110,346** | 272,000 |
| | | **2,930,876** | 4,120,251 |

**Li Dong Sheng**
*Director*

**Yan Yong, Vincent**
*Director*

# Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2004

| | Notes | **2004** **HK$'000** | 2003 HK$'000 |
|---|---|---|---|
| Total equity at 1 January | | **4,120,251** | 3,565,990 |
| Net gains not recognised in the profit and loss account: | | | |
| Exchange differences on translation of the financial statements of foreign entities | 36 | **66,393** | 24,891 |
| Net profit for the year attributable to shareholders | | **316,714** | 641,849 |
| Dividends | 36 | **(1,735,445)** | (185,483) |
| Issue of shares, including share premium | 35 | **160,986** | 73,117 |
| Exchange reserve realised on disposal of subsidiaries, jointly-controlled entities and an associate | 36 | **—** | (113) |
| Goodwill realised on disposal of a jointly-controlled entity | 36 | **1,977** | — |
| Total equity at 31 December | | **2,930,876** | 4,120,251 |

# Consolidated Cash Flow Statement

Year ended 31 December 2004

| | Notes | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **439,236** | 733,690 |
| Adjustments for: | | | |
| Finance costs | | **65,715** | 32,929 |
| Share of profits and losses of jointly-controlled entities | | **(94,516)** | (337,675) |
| Amortisation of goodwill on acquisition of jointly-controlled entities | | **57,321** | 78,433 |
| Depreciation | 6 | **248,434** | 161,363 |
| Impairment of short term investments (previously a jointly controlled entity) | | **29,026** | — |
| Goodwill amortisation | 6 | **33,227** | 33,410 |
| Negative goodwill recognised as income | 6 | **(49,820)** | (654) |
| Loss/(gain) on disposal of fixed assets | 6 | **(1,331)** | 1,416 |
| Interest income | 6 | **(13,811)** | (9,188) |
| Amortisation of trademarks | 6 | **3,155** | 2,892 |
| Impairment of a long term investment | | **13,011** | — |
| Loss/(gain) on disposal of subsidiaries | 37(b) | **2,075** | (1,331) |
| Loss on cessation of a subsidiary | | **—** | 1,987 |
| Operating profit before working capital changes | | **731,722** | 697,272 |
| Decrease/(increase) in inventories | | **(400,517)** | 128,400 |
| Increase in trade and bills receivables from third parties | | **(3,095,025)** | (929,860) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **(608,932)** | 38,332 |
| Increase in net amounts due to related parties | | **275,553** | 148,451 |
| Decrease/(increase) in net amounts due from jointly-controlled entities | | **32,016** | (11,120) |
| Increase in trade and bills payables to third parties | | **1,239,735** | 115,989 |
| Increase in other payables and accruals | | **783,165** | 71,986 |
| Decrease/(increase) in net amount due from the ultimate holding company | | **24,343** | (24,343) |
| Increase in provisions | | **70,493** | — |
| Increase in pensions and other post-employment benefits | | **7,300** | — |
| Cash generated from/(used in) operations | | **(940,147)** | 235,107 |
| Interest paid | | **(65,715)** | (32,682) |
| Income taxes paid | | **(171,040)** | (46,967) |
| Net cash inflow/(outflow) from operating activities | | **(1,176,902)** | 155,458 |

| | Notes | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | 15 | **(617,141)** | (324,666) |
| Purchases of long term investments | | **(4,651)** | — |
| Purchases of short term investments | 27 | **(84,093)** | — |
| Proceeds from disposal of fixed assets | | **71,203** | 28,748 |
| Decrease in pledged bank deposits | | **5,199** | 84,141 |
| Prepayment for the acquisition of a subsidiary | | **—** | (47,815) |
| Acquisition of subsidiaries | 37(a) | **(159,477)** | — |
| Acquisition/formation of jointly-controlled entities | | **—** | (14,282) |
| Acquisition of minority interests of a subsidiary | | **—** | (3,000) |
| Disposal of subsidiaries | 37(b) | **(99)** | 7,251 |
| Interest received | | **13,811** | 9,188 |
| Dividend received from jointly-controlled entities | | **124,090** | 157,184 |
| Net cash outflow from investing activities | | **(651,158)** | (103,251) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | **1,968,428** | 19,811 |
| Repayment of bank loans | | **(320,544)** | (30,159) |
| Proceeds from issue of shares upon exercise of share options | 35 | **69,986** | 70,117 |
| Loan from the ultimate holding company | | **246,965** | — |
| Contribution from minority shareholders | | **312** | 33,962 |
| Loan from a minority shareholder | 31 | **1,033,796** | — |
| Dividend paid | 36 | **(383,860)** | (185,483) |
| Dividend paid to minority shareholders | | **(943)** | (472) |
| Net cash inflow/(outflow) from financing activities | | **2,614,140** | (92,224) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | **786,080** | (40,017) |
| Cash and cash equivalents at beginning of year | | **1,069,562** | 1,093,187 |
| Effect of foreign exchange rate changes, net | | **(22,370)** | 16,392 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **1,833,272** | 1,069,562 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | **1,833,272** | 1,069,562 |

# Balance Sheet
31 December 2004

| | Notes | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 18 | **2,385,055** | 2,957,667 |
| CURRENT ASSETS | | | |
| Due from a subsidiary | 18 | **2,228,138** | — |
| Other receivables | 26 | **791** | 10,646 |
| Short term investments | 27 | **32,801** | — |
| Cash and bank balances | | **214,318** | 115,021 |
| | | **2,476,048** | 125,667 |
| CURRENT LIABILITIES | | | |
| Tax payable | | **3,391** | 2,018 |
| Other payables and accruals | | **13,622** | 7,719 |
| Bank borrowings | 30 | **244,118** | — |
| Convertible notes | 32 | **256,000** | — |
| | | **517,131** | 9,737 |
| NET CURRENT ASSETS | | **1,958,917** | 115,930 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **4,343,972** | 3,073,597 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 30 | **1,622,134** | — |
| Convertible notes | 32 | **—** | 347,000 |
| | | **1,622,134** | 347,000 |
| | | **2,721,838** | 2,726,597 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 35 | **275,796** | 268,133 |
| Reserves | 36 | **2,335,696** | 2,186,464 |
| Proposed final dividend | 13 | **110,346** | 272,000 |
| | | **2,721,838** | 2,726,597 |

**Li Dong Sheng**
*Director*

**Yan Yong, Vincent**
*Director*

## 1. CORPORATE INFORMATION

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

— manufacture and sale of colour television sets, and trading of related components

— manufacture and sale of other audio-visual products

— manufacture and sale of computer related products

In the opinion of the directors, the ultimate holding company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Report Standards (which also include Statements of Standard Accounting Practice ("SSAPs") 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 short term investments, as further explained below.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

### Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Joint venture companies**

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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 company is treated as:

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

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

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

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which 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 profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Goodwill (Continued)**

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Negative goodwill (Continued)**

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

**Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land | Over the lease terms |
| Buildings | 2%–4.5% |
| Leasehold improvements | 25%–50% |
| Plant and machinery | 9%–20% |
| Furniture, fixtures and equipment | 18%–25% |
| Motor vehicles | 18%–25% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fixed assets and depreciation (Continued)**

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

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Trademarks**

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

**Long term investments**

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

**Short term investments**

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

**Inventories**

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

**Provisions**

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

A provision is recognised for expected warranty claims on products sold during the year, based on past experience of the level of repairs and returns. Assumptions used to calculate the provision include current sales levels and current information available about the cost of parts and after sales service expenses of the products.

**Income tax**

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

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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income tax (Continued)**

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, except 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 assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative 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 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 recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies (Continued)**

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

**Employee benefits**

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Share option scheme*

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for all employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 profit and loss account 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 plan is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Government grants**

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

**Revenue recognition**

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

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

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

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

**Research and development costs**

All research costs are charged to the profit and loss account as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

**Dividends**

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

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

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and cash equivalents**

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

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

## 4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

## 4. 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.

### Group

| | Television | | Computer | | Audio-visual | | Others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **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 | **21,794,739** | 12,422,446 | **1,976,507** | 1,775,583 | **1,304,379** | 374,846 | **524,215** | 575,777 | **—** | — | **25,599,840** | 15,148,652 |
| Intersegment sales | **680,059** | 96,064 | **3,834** | 937 | **945,818** | 192,478 | **3,072** | 16,262 | **(1,632,783)** | (305,741) | **—** | — |
| Total | **22,474,798** | 12,518,510 | **1,980,341** | 1,776,520 | **2,250,197** | 567,324 | **527,287** | 592,039 | **(1,632,783)** | (305,741) | **25,599,840** | 15,148,652 |
| Profit/(loss) from operating activities | **511,667** | 573,685 | **61,221** | 31,241 | **30,948** | (28,506) | **(17,884)** | (14,613) | **—** | — | **585,952** | 561,807 |
| Amortisation of goodwill | **(8,475)** | (8,475) | **(24,661)** | (24,661) | **—** | — | **(91)** | (274) | **—** | — | **(33,227)** | (33,410) |
| Amortisation of negative goodwill | **49,820** | — | **—** | — | **—** | — | **—** | — | **—** | — | **49,820** | — |
| Segment results | **553,012** | 565,210 | **36,560** | 6,580 | **30,948** | (28,506) | **(17,975)** | (14,887) | **—** | — | **602,545** | 528,397 |
| Interest income | | | | | | | | | | | **13,811** | 9,188 |
| Corporate expenses | | | | | | | | | | | **(104,488)** | (31,539) |
| Gain/(loss) on disposal of subsidiaries | **—** | — | **—** | — | **—** | — | **(2,075)** | 1,331 | **—** | — | **(2,075)** | 1,331 |
| Impairment of a long term investment | **—** | — | **—** | — | **—** | — | **(13,011)** | — | **—** | — | **(13,011)** | — |
| Finance costs | | | | | | | | | | | **(65,715)** | (32,929) |
| Share of profits and losses of jointly-controlled entities | **5,910** | 8,193 | **—** | — | **—** | — | **88,606** | 329,482 | **—** | — | **94,516** | 337,675 |
| Amortisation of goodwill on acquisition of jointly-controlled entities | **—** | — | **—** | — | **—** | — | **(57,321)** | (78,433) | **—** | — | **(57,321)** | (78,433) |
| Impairment of short term investments (previously a jointly-controlled entity) | **—** | — | **—** | — | **—** | — | **(29,026)** | — | **—** | — | **(29,026)** | — |
| Profit before tax | | | | | | | | | | | **439,236** | 733,690 |
| Tax | | | | | | | | | | | **(143,563)** | (84,093) |
| Profit before minority interests | | | | | | | | | | | **295,673** | 649,597 |
| Minority interests | | | | | | | | | | | **21,041** | (7,748) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | | | **316,714** | 641,849 |
| Segment assets | **14,580,264** | 6,386,559 | **890,047** | 715,576 | **221,882** | 73,135 | **1,201,882** | 551,334 | **(876,951)** | (923,102) | **16,017,124** | 6,803,502 |
| Interests in jointly-controlled entities | **99,616** | 107,977 | **—** | — | **—** | — | **46,759** | 1,545,398 | **—** | — | **146,375** | 1,653,375 |
| Unallocated assets | | | | | | | | | | | **739,402** | 213,019 |
| Total assets | | | | | | | | | | | **16,902,901** | 8,669,896 |
| Segment liabilities | **13,165,415** | 7,001,970 | **474,269** | 294,549 | **211,971** | 75,287 | **712,472** | 282,979 | **(4,644,072)** | (4,013,668) | **9,920,055** | 3,641,117 |
| Unallocated liabilities | | | | | | | | | | | **2,629,888** | 808,449 |
| Total liabilities | | | | | | | | | | | **12,549,943** | 4,449,566 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation and amortisation | **242,028** | 166,434 | **27,837** | 26,175 | **11,411** | 2,058 | **60,861** | 81,431 | **—** | — | **342,137** | 276,098 |
| Impairment losses recognised in the profit and loss account | **—** | — | **—** | — | **—** | — | **42,037** | — | **—** | — | **42,037** | — |
| Capital expenditure | **449,287** | 140,783 | **5,972** | 30,482 | **40,613** | 409 | **121,269** | 152,992 | **—** | — | **617,141** | 324,666 |
| Negative goodwill recognised as income | **49,820** | 654 | **—** | — | **—** | — | **—** | — | **—** | — | **49,820** | 654 |

**4. SEGMENT INFORMATION (Continued)**

**(b) Geographical segments**

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

**Group**

| | **Mainland China** | | **Europe** | | **North America** | | **Others** | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **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 | **12,955,261** | 12,116,567 | **4,743,814** | 324,715 | **3,554,130** | — | **4,346,635** | 2,707,370 | **25,599,840** | 15,148,652 |
| Other segment information: | | | | | | | | | | |
| Segment assets | **4,445,771** | 5,263,922 | **4,641,581** | 318,120 | **3,017,366** | — | **3,912,406** | 1,221,460 | **16,017,124** | 6,803,502 |
| Capital expenditure | **451,854** | 306,019 | **43,700** | 15,461 | **67,161** | — | **54,426** | 3,186 | **617,141** | 324,666 |

**5. TURNOVER**

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

## 6. PROFIT FROM OPERATING ACTIVITIES

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

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Cost of inventories sold | **21,160,532** | 12,671,516 |
| Depreciation | **248,434** | 161,363 |
| Research and development costs | **281,311** | 72,320 |
| Less: Government grants released* | **(16,908)** | (15,425) |
| Net research and development costs | **264,403** | 56,895 |
| Amortisation of trademarks** | **3,155** | 2,892 |
| Amortisation of goodwill of subsidiaries*** | **33,227** | 33,410 |
| Negative goodwill recognised as income**** | **(49,820)** | (654) |
| Minimum lease payments under operating leases for land and buildings | **72,081** | 52,006 |
| Auditors' remuneration | **9,423** | 3,556 |
| Staff costs (including directors' remuneration — note 8): | | |
| Wages and salaries | **963,859** | 502,809 |
| Defined contribution expense | **63,906** | 26,113 |
| Defined benefit expense (note 34) | **7,342** | — |
| | **1,035,107** | 528,922 |
| Loss/(gain) on disposal of fixed assets | **(1,331)** | 1,416 |
| Bad debt provision | **18,890** | 15,586 |
| Exchange gains, net | **(19,569)** | (2,750) |
| Interest income | **(13,811)** | (9,188) |
| Restructuring costs (note 29) | **16,029** | — |
| Provision for warranties (note 29) | **191,853** | — |

* Certain government grants have been received for carrying out research activities within the Guangdong Province, 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 trademarks is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.

*** This is included in "Other operating expenses" on the face of the consolidated profit and loss account.

**** The negative goodwill recognised in the consolidated profit and loss account is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

## 7. FINANCE COSTS

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans and facilities | **28,723** | 22,439 |
| Convertible notes | **7,541** | 10,490 |
| Loan from a minority shareholder | **9,083** | — |
| Loan from the ultimate holding company | **20,368** | — |
| | **65,715** | 32,929 |

## 8. DIRECTORS' REMUNERATION

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

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Fees | **300** | 270 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **3,072** | 3,429 |
| Performance related bonuses | **1,078** | 394 |
| Pension scheme contributions | **29** | 31 |
| | **4,479** | 4,124 |

Fees include HK$300,000 (2003: HK$200,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors 2004 | 2003 |
|---|---|---|
| Nil to HK$1,000,000 | **10** | 8 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |
| | **11** | 9 |

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **6,684** | 4,349 |
| Performance related bonuses | **1,164** | 487 |
| Pension scheme contributions | **36** | 12 |
| | **7,884** | 4,848 |

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

| | Number of employees | |
|---|---|---|
| | **2004** | 2003 |
| HK$1,000,001 to HK$1,500,000 | **2** | 4 |
| HK$1,500,001 to HK$2,000,000 | **1** | — |
| HK$2,000,001 to HK$2,500,000 | **1** | — |
| | **4** | 4 |

## 10. SHARE OF PROFITS AND LOSSES OF JOINTLY-CONTROLLED ENTITIES

More than 90% of the Group's share of results of its jointly-controlled entities was derived from TCL Communication Technology Holdings Limited ("TCL Communication") and its subsidiaries (together the "TCL Communication Group"), a group mainly engaged in the design, development, manufacturing and marketing of mobile handsets.

The Company distributed a special dividend satisfied by the distribution in specie of shares in TCL Communication (the "Communication Shares") held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company (the "Distribution") to shareholders whose names appeared in the register of members of the Company on 23 September 2004. Pursuant thereto a total of 1,103,157,000 Communication Shares were distributed or sold (in case where the shareholders were entitled to but not qualified for the Distribution) and a total of 50,463,000 Communication Shares are retained by the Company as short term investments. The Company has undertaken to the Stock Exchange that it will not, without the prior written consent of the Stock Exchange and unless in compliance with the Listing Rules, within six months from the date on which dealings in the Communication Shares commence on the Stock Exchange, dispose of any of such Communication Shares save for transfer to the Company's holding companies.

## 10. SHARE OF PROFITS AND LOSSES OF JOINTLY-CONTROLLED ENTITIES (Continued)

On 27 September 2004, the TCL Communication Shares were listed on the main board of the Stock Exchange by way of an introduction.

Pursuant to the approval by the shareholders dated 9 September 2004, the share premium and the capital reserve of the Company were reduced to fund the Distribution.

The results of TCL Communication were equity accounted for by the Group up to 23 September 2004, the date before the Distribution. For further details of the results and financial position of the TCL Communication Group, please refer to the annual results announcement of TCL Communication dated 16 April 2005.

## 11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Group: | | |
| Current — Hong Kong | | |
| Charge for the year | **29,751** | 17,685 |
| Overprovision in prior years | **—** | (31) |
| Current — Elsewhere | **99,858** | 59,800 |
| Deferred (note 33) | **(98)** | (941) |
| | **129,511** | 76,513 |
| Share of tax attributable to: | | |
| Jointly-controlled entities | **14,052** | 7,580 |
| Total tax charge for the year | **143,563** | 84,093 |

## 11. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

| | 2004 HK$'000 | 2004 % | 2003 HK$'000 | 2003 % |
|---|---|---|---|---|
| Profit before tax | **439,236** | | 733,690 | |
| Tax at the statutory tax rates of different countries | **54,916** | **12.5** | 224,843 | 30.6 |
| Lower tax rate for specific provinces or local authority | **(82,724)** | | (197,368) | |
| Effect on opening deferred tax of increase in rates | **(5,928)** | | (190) | |
| Adjustments in respect of current tax of previous periods | **—** | | 31 | |
| Income not subject to tax | **(49,655)** | | (10,412) | |
| Expenses not deductible for tax | **128,543** | | 49,870 | |
| Tax losses utilised from previous periods | **(9,078)** | | (4,445) | |
| Tax losses not recognised | **109,530** | | 21,764 | |
| Others | **(2,041)** | | — | |
| Tax charge at the Group's effective rate | **143,563** | **32.7** | 84,093 | 11.5 |

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

## 12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK$1,771,631,000 (2003: HK$239,231,000) (note 36).

## 13. DIVIDENDS

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Interim — 4 (2003: Nil) HK cents per share | **110,316** | — |
| Distribution in specie | **1,351,585** | — |
| Proposed final — 4 (2003: 10) HK cents per share | **110,346** | 272,000 |
| | **1,572,247** | 272,000 |

As set out in more details in note 10, a special dividend of HK$1,351,585,000 in the form of distribution in specie of the Communication Shares held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company was made to the shareholders on the register of members on 23 September 2004.

## 13. DIVIDENDS (Continued)

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 14. EARNINGS PER SHARE

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

| | Year ended 31 December | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Net profit attributable to shareholders, used in the basic earnings per share calculation | **316,714** | 641,849 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes | **7,541** | 10,490 |
| Adjustment to minority interest upon exercise of the Exchange Option (note 35) | **(20,597)** | — |
| Earnings for the purpose of diluted earnings per share | **303,658** | 652,339 |

| | Number of shares | |
|---|---|---|
| | **2004** | 2003 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation | **2,736,752,618** | 2,651,526,753 |
| Weighted average number of ordinary shares: | | |
| Assumed issued at no consideration on deemed exercise of all share options outstanding during the year | **14,089,054** | 13,470,468 |
| Assumed issued on deemed conversion of all convertible notes outstanding during the year | **112,381,287** | 136,857,676 |
| Assumed issued on deemed exercise of the Exchange Option *(note 35)* outstanding during the year | **480,378,535** | — |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | **3,343,601,494** | 2,801,854,897 |

## 15. FIXED ASSETS

**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 |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At beginning of year | 417,293 | 93,527 | 557,145 | 186,472 | 47,393 | 173,342 | 1,475,172 |
| Additions | 25,669 | 29,255 | 186,606 | 69,465 | 24,329 | 281,817 | 617,141 |
| Acquisition of subsidiaries (note 37(a)) | 593,950 | 2,560 | 464,001 | 82,387 | 6,804 | 82,689 | 1,232,391 |
| Disposal of subsidiaries (note 37(b)) | — | — | — | (4,302) | (27) | — | (4,329) |
| Disposals | (22,034) | (96,511) | (8,080) | (45,857) | (13,321) | — | (185,803) |
| Transfers | 292,993 | 3,396 | 60,925 | 6,635 | 46 | (363,995) | — |
| Exchange realignment | 29,297 | 80 | 33,969 | 7,824 | (54) | 5,951 | 77,067 |
| At 31 December 2004 | 1,337,168 | 32,307 | 1,294,566 | 302,624 | 65,170 | 179,804 | 3,211,639 |
| Accumulated depreciation: | | | | | | | |
| At beginning of year | 98,652 | 69,200 | 305,244 | 105,635 | 27,522 | — | 606,253 |
| Provided during the year | 45,907 | 15,146 | 139,785 | 37,906 | 9,690 | — | 248,434 |
| Disposal of subsidiaries (note 37(b)) | — | — | (821) | (1,112) | (5) | — | (1,938) |
| Disposals | (2,540) | (72,671) | (4,951) | (25,737) | (10,032) | — | (115,931) |
| Exchange realignment | 4,870 | 1 | 18,571 | 3,018 | (43) | — | 26,417 |
| At 31 December 2004 | 146,889 | 11,676 | 457,828 | 119,710 | 27,132 | — | 763,235 |
| Net book value: | | | | | | | |
| At 31 December 2004 | 1,190,279 | 20,631 | 836,738 | 182,914 | 38,038 | 179,804 | 2,448,404 |
| At 31 December 2003 | 318,641 | 24,327 | 251,901 | 80,837 | 19,871 | 173,342 | 868,919 |

## 15. FIXED ASSETS (Continued)

**Group (Continued)**

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

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Freehold: | | |
| Elsewhere | **486,891** | — |
| Short term leases: | | |
| Elsewhere | **96,517** | — |
| Medium term leases: | | |
| Hong Kong | **29,071** | 29,845 |
| Elsewhere | **724,689** | 387,448 |
| | **1,337,168** | 417,293 |

## 16. TRADEMARKS

**Group**

| | HK$'000 |
|---|---|
| Cost: | |
| At beginning of year | 31,707 |
| Exchange realignment | 2,494 |
| At 31 December 2004 | 34,201 |
| Accumulated amortisation: | |
| At beginning of year | 3,963 |
| Provided during the year (note 6) | 3,155 |
| Exchange realignment | 577 |
| At 31 December 2004 | 7,695 |
| Net book value: | |
| At 31 December 2004 | 26,506 |
| At 31 December 2003 | 27,744 |

## 17. GOODWILL/NEGATIVE GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

| | Group | |
|---|---|---|
| | **Goodwill** | **Negative goodwill** |
| | HK$'000 | HK$'000 |
| Cost: | | |
| At beginning of year | 336,670 | (654) |
| Acquisition of subsidiaries (note 37(a)) | — | (597,836) |
| Disposal of subsidiaries (note 37(b)) | (5,313) | — |
| At 31 December 2004 | 331,357 | (598,490) |
| Accumulated amortisation/(recognised as income): | | |
| At beginning of year | 92,131 | (654) |
| Amortisation provided/(recognised as income) during the year | 33,227 | (49,820) |
| Disposal of subsidiaries (note 37(b)) | (640) | — |
| At 31 December 2004 | 124,718 | (50,474) |
| Net book value: | | |
| At 31 December 2004 | 206,639 | (548,016) |
| At 31 December 2003 | 244,539 | — |

At 31 December 2004, the amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2003: HK$1,819,000), representing its cost.

## 18. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **1,704,595** | 1,148,255 |
| Due from subsidiaries | **685,019** | 1,951,270 |
| Due to subsidiaries | **(4,559)** | (141,858) |
| | **2,385,055** | 2,957,667 |

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

For the balance due from TTE Corporation of HK$2,228,138,000 (2003: Nil) included in current assets at 31 December 2004 is unsecured, bears interest at 0.6% per annum above inter-bank offer rates (being the Company's cost of fund) and is repayable on demand.

## 18. INTERESTS IN SUBSIDIARIES (Continued)

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 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|
| Guangzhou Digital Rowa Technology Co., Ltd. | PRC | RMB120,000,000 | **70** | 70 | Manufacture of audio-visual products |
| Inner Mongolia TCL Electrical Appliance Company Limited (a) (c) | PRC | RMB88,130,825 | **67** | — | Manufacture of audio-visual products |
| Manufacturas Avanzadas, S.A. de C.V. (a) | Mexico | US$25,452,000 | **67** | — | Manufacture of audio-visual products |
| RCA Componentes, S.A. de C.V. (a) | Mexico | US$6,103,000 | **67** | — | Manufacture of audio-visual products |
| Renova Electronics Private Limited (a) | India | INR845,164,897 | **67** | — | Trading of audio-visual products and components |
| TTE Corporation (a) @ | British Virgin Islands/ Hong Kong | US$10,000 | **67** | — | Investment holding |
| Schneider Electronics GmbH (a) | Germany | EUR2,000,000 | **67** | 100 | Manufacture and sale of audio-visual products |
| Shenzhen TCL New Technology Company Limited (a) | PRC | RMB10,608,600 | **67** | 100 | Manufacture and sale of audio-visual products |
| TCL – Thomson Electronics Europe SAS (a) | France | EUR14,267,000 | **67** | — | Trading of audio-visual products and components |
| TCL (Vietnam) Corporation Limited (a) | Vietnam | VND37,135,000 | **67** | 100 | Manufacture and sale of audio-visual products |
| TCL Computer Technology Co., Ltd.* | PRC | RMB100,000,000 | **100** | 100 | Manufacture and sale of personal computers and peripheral products |
| TCL Digital Science and Technology (Wuxi) Company Limited (a) (b) | PRC | RMB122,570,000 | **47** (d) | — | Manufacture of audio-visual products |
| TCL Electrical Appliance Sales Co., Ltd. | PRC | RMB30,000,000 | **51** | 51 | Operation of a distribution network in the PRC |
| TCL Electronics (HK) Limited (a) | Hong Kong | HK$30,000,000 | **67** | 100 | Trading of audio-visual products and components |

## 18. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued/paid up capital | % of equity attributable to the Company 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|
| TCL Electronics (Thailand) Co. Limited (a) | Thailand | THB100,000,000 | **67** | — | Trading of audio-visual products and component |
| TCL Holdings (BVI) Limited (a) | British Virgin Islands/ Hong Kong | US$25,000 | **67** | 100 | Investment Holding |
| TCL India Holdings Pvt. Limited (a) | India | INR100,000 | **67** | — | Trading of audio-visual products and component |
| 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 (a) | PRC | HK$30,000,000 | **67** | — | Manufacture of audio-visual products |
| TCL King Electrical Appliances (Huhehaote) Company Limited (a) | PRC | RMB21,400,000 | **67** | 100 | Manufacture of audio-visual products |
| TCL King Electrical Appliances (Huizhou) Company Limited (a) | PRC | RMB274,400,000 | **67** | 100 | Manufacture and sale of audio-visual products and trading of components |
| TCL King Electrical Appliances (Nanchang) Company Limited (a) | PRC | RMB21,400,000 | **67** | 100 | Manufacture of audio-visual products |
| TCL King Electrical Appliances (Wuxi) Company Limited (a) | PRC | RMB10,608,000 | **47** (d) | 70 | Manufacture of audio-visual products |
| TCL King Electronics (Shenzhen) Company Limited (a) | PRC | RMB107,000,000 | **67** | 100 | Manufacture of audio-visual products |
| TCL OEM Sales Limited (a) | Hong Kong | HK$2 | **67** | 100 | Trading of audio-visual products and components |
| TCL Overseas Consumer Electronics Limited (a) | Hong Kong | HK$100 | **67** | 100 | Trading of audio-visual products and components |
| TCL Overseas Electronics (Huizhou) Limited (a) | PRC | RMB106,819,156 | **67** | 100 | Manufacture of audio-visual products |
| TCL Overseas Holdings Limited (a) | British Virgin Islands/ Hong Kong | US$1 | **67** | 100 | Investment Holding |

## 18. INTERESTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued/paid up capital | % of equity attributable to the Company 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|
| TCL Overseas Marketing Limited (a) | British Virgin Islands/ Hong Kong | US$1 | **67** | 100 | Trading of audio-visual products and components |
| TCL Retail (HK) Limited (a) | Hong Kong | HK$10,000 | **67** | 100 | Trading of audio-visual products |
| TCL Technology Electronics (Huizhou) Co., Ltd. | PRC | RMB45,730,500 | **67** | 100 | Manufacture and sale of audio-visual products |
| TCL Thomson Electronics (Thailand) Limited (a) | Thailand | THB220,000 | **67** | — | Trading of audio-visual products and components |
| TCL – Thomson Electronics Polska S.P. Zo.o (a) | Poland | PLN30,000 | **67** | — | Manufacture of audio-visual products |
| Thomson Televisions de Mexico, S.A de C.V. (a) | Mexico | US$16,000 | **67** | — | Manufacture of audio-visual products |
| TTE Germany GmbH (a) | Germany | EUR25,000 | **67** | — | Research & development service |
| TTE Multimedia (Beijing) Co., Limited (formerly known as Thomson Zhaowei Multimedia Co., Limited) (a) | PRC | RMB248,306,050 | **67** | — | Manufacture of audio-visual products |
| TTE Technology Canada Limited (a) | Canada | CAD816,000 | **67** | — | Trading of audio-visual products and components |
| TTE Technology Inc. (a) | USA | US$10,259,000 | **67** | — | Trading of audio-visual products and components |

@ Direct subsidiaries of the Company

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

## 18. INTERESTS IN SUBSIDIARIES (Continued)

(a) Pursuant to a combination agreement dated 28 January 2004 entered into by the Company, TCL Corporation, and Thomson S.A. (the "Combination Agreement"), TTE Corporation was established to combine and manage the TV businesses and assets of the respective parties to the agreement. The Combination Agreement involved:

- the acquisition by the Company from TCL Corporation equity interest in certain entities located in PRC;

- the Company and its subsidiaries/associates undergoing restructuring to contribute the entire TV businesses and assets to TTE Corporation;

- the acquisition by TTE Corporation from Thomson S.A. and its associates the TV businesses comprising certain TV production plants, research and development facilities and current assets.

TTE Corporation, in return for the contribution made by the Company and Thomson S.A., issued shares to them representing 67% and 33% respectively of its issued share capital. Further details of the acquisition were set out in a circular issued by the Company dated 31 May 2004. The combination was completed on 30 July 2004.

(b) TCL Holdings (BVI) Limited ("TCL BVI") (a subsidiary of the Company) entered into an agreement dated 28 May 2004 with T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries") (a wholly-owned subsidiary of TCL Corporation) under which TCL BVI purchased from TCL Industries a 70% equity interest in TCL Digital Science and Technology (Wuxi) Company Limited ("Wuxi Co") at a consideration of RMB105.7 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 70% equity interest in Wuxi Co and inject the same into TTE Corporation. The acquisition was completed in July 2004.

(c) TCL BVI entered into an agreement dated 28 May 2004 with TCL Corporation and TCL Home Appliances (Huizhou) Company Limited (a wholly-subsidiary of TCL Corporation) under which TCL BVI acquired the 100% equity interest in Inner Mongolia TCL Electrical Appliance Company Limited ("Inner Mongolia Co") at a consideration of RMB125.8 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 100% equity interest in Inner Mongolia Co and inject the same into TTE Corporation. The acquisition was completed on in July 2004.

(d) These entities are accounted for as subsidiaries by virtue of control over the entities.

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

## 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **146,375** | 983,773 |
| Goodwill on acquisition | **—** | 678,216 |
| Provision for impairment | **—** | (8,614) |
| | **146,375** | 1,653,375 |

The amounts of goodwill capitalised as an asset and the amount of goodwill remaining in consolidated reserves arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001 are as follows:

| | Group | |
|---|---|---|
| | **Goodwill capitalised as an asset** | **Goodwill debited to capital reserve** |
| | HK$'000 | HK$'000 |
| Cost: | | |
| At beginning of year | 784,327 | 3,047 |
| Disposal through distribution in specie | (784,327) | (3,047) |
| At 31 December 2004 | — | — |
| Accumulated amortisation and impairment: | | |
| At beginning of year | 106,111 | 1,070 |
| Amortisation provided during the year | 57,321 | — |
| Disposal through distribution in specie | (163,432) | (1,070) |
| At 31 December 2004 | — | — |
| Net book value: | | |
| At 31 December 2004 | — | — |
| At 31 December 2003 | 678,216 | 1,977 |

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

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

| Name | Business structure | Place of incorporation/ registration and operations | Percentage of Ownership interest | Voting power | Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Henan TCL-Melody Electronics Co., Ltd. | Corporate | PRC | 35 | 38 | 35 | Manufacture and sale of audio-visual products |
| TCL Sun, Inc. | Corporate | Philippines | 33 | 33 | 33 | Trading of audio-visual products |
| 電大在線遠程教育技術有限公司* | Corporate | PRC | 50 | 45 | 50 | Provision of remote education services |

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

During the year on 23 September 2004, the Company's entire interest in a major jointly-controlled entity, Huizhou TCL Mobile Communication Co Ltd ("TCL Mobile"), was distributed to the Company's shareholders in form of distribution in specie of shares of TCL Communication, the then holding company of TCL Mobile. Details of the distribution are set out in note 10 to the financial statements.

## 20. LONG TERM INVESTMENTS

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Unlisted equity investments, at cost | **55,312** | 1,682 |
| Provision for impairment | **(13,011)** | — |
| | **42,301** | 1,682 |

## 21. LONG TERM RECEIVABLES

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Angers Factory (a) | **168,376** | — |
| Trademark fee reinvestment (b) | **115,438** | — |
| | **283,814** | — |

**21. LONG TERM RECEIVABLES (Continued)**

(a) Pursuant to the Agreement relating to Thomson Television Angers, TTE Corporation shall purchase certain existing assets and new assets of a factory owned by Thomson S.A. ("Angers Factory Assets") with an aggregate fair value of Euro16 million for a nominal consideration of Euro1 within five years from 30 July 2004. Should the aggregate fair market value of the Angers Factory Assets to be transferred to TTE Corporation is less than Euro16 million, Thomson S.A. is required to transfer other assets and/or cash to make up the shortfall.

(b) Pursuant to the Thomson Trademark License Agreement, Thomson S.A. is required to reinvest the trademark fee received from TTE Corporation in respect of sales of certain Thomson-owned brands televisions for the period from the second anniversary until the fifth anniversary after the closing of the Combination Agreement (i.e. 30 July 2004) in general brand awareness advertising costs for such brands for the benefits of TTE Corporation.

**22. PREPAID ROYALTY**

**Group**

| | **Principal portion** HK$'000 | **Discount portion** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Total at 31 December 2004 | 605,099 | 71,196 | 676,295 |
| Less: Portion classified as current assets (note 26) | (43,639) | (12,288) | (55,927) |
| Non-current portion | 561,460 | 58,908 | 620,368 |

Pursuant to a patent royalty agreement dated 30 July 2004 signed between Thomson Licensing S.A. ("TLSA") (a subsidiary of Thomson S.A.) and TTE Corporation, a paid-up royalty account with an initial amount of Euro70 million was established. Any royalties payable under the patent license agreement(s) between TLSA or its affiliates and TTE Corporation or its affiliates will be paid out of the paid-up royalty account. After the fourth anniversary of the agreement, TTE Corporation may elect to apply the remaining balance in the paid-up royalty account to pay any other amounts that may be due to TLSA or its affiliates under certain other operation agreements.

## 23. INVENTORIES

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Raw materials | **1,441,926** | 513,026 |
| Work in progress | **365,715** | 170,992 |
| Finished goods | **2,757,859** | 1,757,482 |
| | **4,565,500** | 2,441,500 |

The carrying amount of inventories carried at net realisable value included in the above balance was HK$802,897,000 (2003: HK$209,600,000) as at the balance sheet date.

## 24. TRADE AND BILLS RECEIVABLES

| | Group 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Due from third parties: | | |
| Trade receivables | **4,842,183** | 757,822 |
| Bills receivable | **907,848** | 1,145,596 |
| | **5,750,031** | 1,903,418 |
| Due from related parties (note 25) | **27,465** | 6,825 |
| Due from jointly-controlled entities (note 25) | **35,047** | 6,551 |
| Due from the ultimate holding company (note 25) | **—** | 24,343 |
| | **5,812,543** | 1,941,137 |

**24. TRADE AND BILLS RECEIVABLES (Continued)**

The majority of the Group's sales in the PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were also made on the open-account basis with credit terms of no more than 180 days. An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Current to 90 days | **5,191,272** | 1,779,018 |
| 91 to 180 days | **552,555** | 130,542 |
| 181 to 365 days | **65,602** | 22,606 |
| Over 365 days | **3,114** | 8,971 |
| | **5,812,543** | 1,941,137 |

**25. DUE FROM/TO RELATED PARTIES/JOINTLY-CONTROLLED ENTITIES/THE ULTIMATE HOLDING COMPANY**

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

**26. OTHER RECEIVABLES**

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Prepayments, deposits and other receivables | **1,110,075** | 357,116 | **791** | 10,646 |
| Prepaid royalty (note 22) | **55,927** | — | **—** | — |
| Dividend receivable | **—** | 2,453 | **—** | — |
| Due from related parties (note 25) | **152,450** | — | **—** | — |
| | **1,318,452** | 359,569 | **791** | 10,646 |

## 27. SHORT TERM INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong (a) | **32,801** | — | **32,801** | — |
| Mutual funds listed in Europe | **84,093** | — | **—** | — |
| At 31 December 2004, at market value | **116,894** | — | **32,801** | — |

(a) The investments represent a total of 50,463,000 shares of TCL Communication which was reclassified from interests in jointly-controlled entities. They represent the remaining shares held by the Company after the distribution in specie, details of which are set out in note 10. A provision for impairment in the amount of HK$29,026,000 had been made to mark the carrying value to market price at 31 December 2004.

## 28. TRADE AND BILLS PAYABLES

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Due to third parties: | | |
| Trade payables | **3,938,055** | 1,788,972 |
| Bills payable | **974,717** | 985,806 |
| | **4,912,772** | 2,774,778 |
| Due to related parties (note 25) | **1,675,929** | 191,881 |
| Due to jointly-controlled entities (note 25) | **60,512** | — |
| | **6,649,213** | 2,966,659 |

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

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Current to 90 days | **6,123,466** | 2,211,432 |
| 91 to 180 days | **479,123** | 701,627 |
| 181 to 365 days | **15,610** | 47,095 |
| Over 365 days | **31,014** | 6,505 |
| | **6,649,213** | 2,966,659 |

## 29. PROVISIONS

**Group**

| | Restructuring costs | Warranties | Total |
|---|---|---|---|
| | HK$000 | HK$000 | HK$000 |
| At 1 January 2003 and 2004 | — | — | — |
| Acquisition of subsidiaries (note 37(a)) | — | 166,876 | 166,876 |
| Arising during the year | 16,029 | 191,853 | 207,882 |
| Utilised | (14,594) | (122,795) | (137,389) |
| Exchange realignment | — | 2,508 | 2,508 |
| At 31 December 2004 | 1,435 | 238,442 | 239,877 |

**Restructuring costs**

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

Pursuant to the Combination Agreement, Thomson S.A. has agreed to reimburse TTE Corporation up to Euro33 million of restructuring costs incurred within the first two years of the closing date of the Combination Agreement in relation to the Thomson TV Business injected into TTE Corporation, subject to certain adjustment as may be agreed by the parties. The restructuring costs reimbursed by Thomson S.A. were credited directly to restructuring costs.

## 30. BANK BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank loans: | | | | |
| Secured | **—** | 943 | **—** | — |
| Unsecured | **1,986,511** | 395,339 | **1,866,252** | — |
| Trust receipt loans, unsecured | **205,742** | — | **—** | — |
| | **2,192,253** | 396,282 | **1,866,252** | — |
| Bank loans repayable: | | | | |
| Within one year | **364,377** | 113,929 | **244,118** | — |
| In the second year | **94,118** | 94,118 | **94,118** | — |
| In the third to fifth years, inclusive | **1,528,016** | 188,235 | **1,528,016** | — |
| | **1,986,511** | 396,282 | **1,866,252** | — |
| Trust receipt loans | **205,742** | — | **—** | — |
| | **2,192,253** | 396,282 | **1,866,252** | — |
| Portion classified as current liabilities | **(570,119)** | (113,929) | **(244,118)** | — |
| Long term portion | **1,622,134** | 282,353 | **1,622,134** | — |

At 31 December 2003, the secured bank loans were secured by the Group's bank deposits of HK$5,199,000 and land and buildings with a net book value of HK$472,000.

## 31. DUE TO A MINORITY SHAREHOLDER

The loan due to Thomson S.A. bears interest at 2.36% per annum (being the cost of fund of Thomson S.A.) and is secured by the Group's accounts receivable with a carrying value of HK$1,033,796,000. Such loan amount shall, from the first anniversary of the closing of the Combination Agreement (i.e. 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated.

## 32. CONVERTIBLE NOTES

**Group and Company**

| | HK$'000 |
|---|---|
| At beginning of year | 347,000 |
| Converted to shares during the year | (91,000) |
| At 31 December 2004 | 256,000 |

The principal terms of the convertible notes are as follows:

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

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

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

*Conversion period*
The conversion period commenced on 8 November 2002 and will end on 8 November 2005.

*Conversion rights*
The noteholders have the right at any time during the conversion period to convert the convertible notes in whole or in part of the principal amount of not less than HK$10,000 into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment).

As the distribution in specie of shares of TCL Communication (as set out in note 10) was defined as capital distribution in accordance with the terms of the convertible notes, the conversion price of the convertible notes was adjusted from HK$2.556 per share to HK$2.06 per share.

*Conversion shares*
During the year, convertible notes amounting to HK$91,000,000 were converted into 35,602,496 new shares of the Company. As at 31 December 2004, assuming full conversion of the convertible notes at the adjusted conversion price, the number of shares to be issued will be 124,271,844 (2003 at initial conversion price: 135,758,999), representing approximately 4.5% (2003: 5.1%) of the existing issued share capital of the Company and approximately 4.3% (2003: 4.8%) of the issued share capital of the Company as enlarged by the issue of such shares.

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

## 33. DEFERRED TAX

### Deferred tax liabilities

*Group*

| | 2004 | | |
|---|---|---|---|
| | Accelerated tax depreciation HK$'000 | Others HK$'000 | Total HK$'000 |
| At 1 January 2003 | 2,031 | — | 2,031 |
| Deferred tax charged/(credited) to the profit and loss account during the year (note 11) | (615) | 431 | (184) |
| Gross deferred tax liabilities at 31 December 2003 and 1 January 2004 | 1,416 | 431 | 1,847 |
| Acquisition of subsidiaries (note 37(a)) | 29,305 | — | 29,305 |
| Deferred tax charged/(credited) to the profit and loss account during the year (note 11) | 3,268 | (431) | 2,837 |
| Gross deferred tax liabilities at 31 December 2004 | 33,989 | — | 33,989 |

### Deferred tax assets

*Group*

| | 2004 | | | | |
|---|---|---|---|---|---|
| | Elimination of unrealised profits arising from intra-group transactions HK$'000 | General provisions HK$'000 | Pension provisions HK$'000 | Others HK$'000 | Total HK$'000 |
| At 1 January 2003 | 6,316 | 1,782 | — | — | 8,098 |
| Deferred tax credited/(charged) to the profit and loss account during the year (note 11) | (1,691) | 2,448 | — | — | 757 |
| Gross deferred tax assets at 31 December 2003 and 1 January 2004 | 4,625 | 4,230 | — | — | 8,855 |
| Acquisition of subsidiaries (note 37(a)) | — | — | 6,003 | — | 6,003 |
| Deferred tax credited to the profit and loss account during the year (note 11) | 675 | 908 | 1,313 | 39 | 2,935 |
| Exchange realignment | — | — | 790 | — | 790 |
| Gross deferred tax assets at 31 December 2004 | 5,300 | 5,138 | 8,106 | 39 | 18,583 |

## 33. DEFERRED TAX (Continued)

The Group has tax losses of HK$676,607,000 (2003: HK$140,187,000) 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 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures.

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

## 34. 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 profit and loss account and the amounts recognised in the consolidated balance sheet for the plans.

| | **2004**<br>**HK$'000** | 2003<br>HK$'000 |
|---|---|---|
| **Net benefits expense** | | |
| Current service cost | **4,421** | — |
| Interest cost on benefits obligation | **2,921** | — |
| Net benefits expense | **7,342** | — |
| **Benefits liabilities** | | |
| Benefit obligation | **141,043** | — |
| Unrecognised net actuarial losses | **(10,993)** | — |
| Benefits liabilities | **130,050** | — |
| **Movements in the benefits liabilities during the year are as follows:** | | |
| At 1 January | **—** | — |
| Acquisition of subsidiaries (note 37(a)) | **122,046** | — |
| Benefits expense (note 6) | **7,342** | — |
| Contributions | **(42)** | — |
| Exchange realignment | **704** | — |
| At 31 December | **130,050** | — |

**34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)**

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

| | % per annum |
|---|---|
| Discount rate | 4.0–5.5 |
| Future salary increases | 1.0–7.0 |
| Future pension increases | 1.3–3.5 |
| Healthcare cost increase rate | 5.0–9.5 |

**35. SHARE CAPITAL**

**Shares**

| | **Company** | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Authorised: | | |
| 5,000,000,000 shares of HK$0.10 each | **500,000** | 500,000 |
| Issued and fully paid: | | |
| 2,757,960,632 (2003: 2,681,328,559) shares of HK$0.10 each | **275,796** | 268,133 |

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

(a) The subscription rights attaching to 41,029,577 share options were exercised, resulting in the issue of 41,029,577 shares of HK$0.10 each for a total cash consideration of HK$69,986,000.

(b) 35,602,496 shares of HK$0.10 each were issued pursuant to the conversion of the Company's convertible notes amounting to HK$91,000,000 at a conversion price of HK$2.556 per share.

(c) Pursuant to the shareholders approval on 9 September 2004, the share premium and capital reserve of the Company were utilised as to HK$1,389,347,000 and HK$164,169,000, respectively, to fund the distribution in specie of shares of TCL Communication (note 10).

## 35. SHARE CAPITAL (Continued)

**Shares (Continued)**

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

| | Numbers of shares in issue | Issued share capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2003 | 2,630,998,852 | 263,100 | 1,205,670 | 1,468,770 |
| Share option exercised | 49,155,999 | 4,916 | 65,201 | 70,117 |
| Conversion of convertible notes | 1,173,708 | 117 | 2,883 | 3,000 |
| At 31 December 2003 | 2,681,328,559 | 268,133 | 1,273,754 | 1,541,887 |
| Share options exercised | 41,029,577 | 4,103 | 65,883 | 69,986 |
| Conversion of convertible notes | 35,602,496 | 3,560 | 87,440 | 91,000 |
| Distribution in specie (note 10) | — | — | (1,389,347) | (1,389,347) |
| At 31 December 2004 | 2,757,960,632 | 275,796 | 37,730 | 313,526 |

**Share options**

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

The purpose of the New Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employee (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.)

## 35. SHARE CAPITAL (Continued)

### Share options (Continued)

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

At 31 December 2004, the number of shares issuable under share options granted under the schemes was 32,316,861, which represented approximately 1.2% of the Company's shares in issue as at that date.

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

| Name or category of participant | Number of share options: At 1 January 2004 | Reclassification during the year | Exercised during the year | At 31 December 2004 | Date of grant | Exercise price HK$ | Exercise period | Price of Company's shares at date of grant# HK$ | Price of Company's shares at exercise date* HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Li Dong Sheng | 6,950,000 | — | (6,950,000) | — | 15 May 2003 | 1.550 | Note 4 | 1.590 | 3.275 |
| Yan Yong, Vincent | 134,000 | — | (66,000) | 68,000 | 30 January 2003 | 2.114 | Note 3 | 2.075 | 2.264 |
| Suen Hay Wai, Felipe | 700,000 | — | (466,000) | 234,000 | 30 January 2003 | 2.114 | Note 3 | 2.075 | 2.778 |
| Zhao Zhong Yao@ | — | 100,000 | (100,000) | — | 29 October 2001 | 0.994 | Note 1 | 0.990 | 2.750 |
| | — | 200,000 | (132,000) | 68,000 | 30 January 2003 | 2.114 | Note 3 | 2.075 | 2.750 |
| | — | 300,000 | (232,000) | 68,000 | | | | | |
| **Other employees** | | | | | | | | | |
| | 12,997,838 | (100,000) | (11,003,838) | 1,894,000 | 29 October 2001 | 0.994 | Note 1 | 0.990 | 3.192 |
| | 10,000,000 | — | — | 10,000,000 | 4 November 2002 | 2.305 | Note 2 | 2.175 | |
| | 41,864,600 | (200,000) | (21,611,739) | 20,052,861 | 30 January 2003 | 2.114 | Note 3 | 2.075 | 2.721 |
| | 700,000 | — | (700,000) | — | 15 May 2003 | 1.550 | Note 4 | 1.590 | 3.275 |
| | 65,562,438 | (300,000) | (33,315,577) | 31,946,861 | | | | | |
| | 73,346,438 | — | (41,029,577) | 32,316,861 | | | | | |

## 35. SHARE CAPITAL (Continued)

### Share options (Continued)

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

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

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

Note 4 Such share options are exercisable at any time from the date of grant to 14 November 2006.

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

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

@ Zhao Zhong Yao was appointed as a director on 18 May 2004. His share options were included in other employees' section in 2003.

### Exchange Option

Pursuant to an exchange option agreement, the Company granted an option (the "Exchange Option") to Thomson S.A., the minority shareholder of TTE Corporation (a subsidiary of the Company), to exchange all of Thomson S.A.'s interest in TTE Corporation for 1,149,140,810 new shares to be issued by the Company. The option is exercisable from 27 September 2004 to 16 July 2005, subject to certain extensions. Details of the Exchange Option have been set out in a circular of the Company dated 31 May 2004.

## 36. RESERVES

### Group

| | Share premium account HK$'000 | Capital reserve^ HK$'000 | Reserve funds* HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2003 | 1,205,670 | 66,204 | 427,321 | 14,772 | 1,404,368 | 3,118,335 |
| Issue of shares upon exercise of share options (note 35) | 65,201 | — | — | — | — | 65,201 |
| Issue of shares upon conversion of convertible notes (note 35) | 2,883 | — | — | — | — | 2,883 |
| Exchange realignment | — | — | — | 24,891 | — | 24,891 |
| Realised on disposal | — | — | — | (113) | — | (113) |
| Net profit for the year | — | — | — | — | 641,849 | 641,849 |
| Final 2002 dividend | — | — | — | — | (928) | (928) |
| Proposed final 2003 dividend (note 13) | — | — | — | — | (272,000) | (272,000) |
| Transfer from retained profits | — | — | 64,884 | — | (64,884) | — |
| At 31 December 2003 | 1,273,754 | 66,204 | 492,205 | 39,550 | 1,708,405 | 3,580,118 |
| Issue of shares upon exercise of share options (note 35) | 65,883 | — | — | — | — | 65,883 |
| Issue of shares upon conversion of convertible notes (note 35) | 87,440 | — | — | — | — | 87,440 |
| Goodwill realised on disposal of a jointly-controlled entity | — | 1,977 | — | — | — | 1,977 |
| Exchange realignment | — | — | — | 66,393 | — | 66,393 |
| Realised on disposal | — | — | (198) | — | 198 | — |
| Net profit for the year | — | — | — | — | 316,714 | 316,714 |
| Final 2003 dividend | — | — | — | — | (1,544) | (1,544) |
| Interim 2004 dividend | — | — | — | — | (110,316) | (110,316) |
| Distribution in specie | (1,389,347) | (9,082) | (69,683) | (6,544) | 123,071 | (1,351,585) |
| Proposed final 2004 dividend (note 13) | — | — | — | — | (110,346) | (110,346) |
| Transfer from retained profits | — | — | 65,388 | — | (65,388) | — |
| At 31 December 2004 | 37,730 | 59,099 | 487,712 | 99,399 | 1,860,794 | 2,544,734 |
| Reserves retained by: | | | | | | |
| Company and subsidiaries | 37,730 | 59,099 | 465,115 | 99,394 | 1,855,114 | 2,516,452 |
| Jointly-controlled entities | — | — | 22,597 | 5 | 5,680 | 28,282 |
| At 31 December 2004 | 37,730 | 59,099 | 487,712 | 99,399 | 1,860,794 | 2,544,734 |
| Reserves retained by: | | | | | | |
| Company and subsidiaries | 1,273,754 | 66,204 | 388,825 | 38,503 | 1,219,946 | 2,987,232 |
| Jointly-controlled entities | — | — | 103,380 | 1,047 | 488,459 | 592,886 |
| At 31 December 2003 | 1,273,754 | 66,204 | 492,205 | 39,550 | 1,708,405 | 3,580,118 |

## 36. RESERVES (Continued)

### Group (Continued)

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

^ The Group's capital reserve originally represents 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 remain eliminated against the capital reserve is explained in note 17 to the financial statements.

### Company

| | Share premium account HK$'000 | Capital reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2003 | 1,205,670 | 903,105# | 43,302 | 2,152,077 |
| Issue of shares upon exercise of share options | 65,201 | — | — | 65,201 |
| Issue of shares upon conversion of convertible notes | 2,883 | — | — | 2,883 |
| Net profit for the year | — | — | 239,231 | 239,231 |
| Final 2002 dividend | — | — | (928) | (928) |
| Proposed final 2003 dividend (note 13) | — | — | (272,000) | (272,000) |
| At 31 December 2003 | 1,273,754 | 903,105 | 9,605 | 2,186,464 |
| Issue of shares upon exercise of share options | 65,883 | — | — | 65,883 |
| Issue of shares upon conversion of convertible notes | 87,440 | — | — | 87,440 |
| Net profit for the year | — | — | 1,771,631 | 1,771,631 |
| Final 2003 dividend | — | — | (1,544) | (1,544) |
| Interim 2004 dividend | — | — | (110,316) | (110,316) |
| Distribution in specie | (1,389,347) | (164,169) | — | (1,553,516) |
| Proposed final 2004 dividend (note 13) | — | — | (110,346) | (110,346) |
| At 31 December 2004 | 37,730 | 738,936 | 1,559,030 | 2,335,696 |

# 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.

## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

| | Notes | 2004<br>HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Fixed assets | 15 | **1,232,391** |
| Long term investments | | **1,164** |
| Long term receivables | | **258,775** |
| Deferred tax assets | 33 | **6,003** |
| Cash and bank balances | | **140,910** |
| Inventories | | **1,724,038** |
| Trade and bills receivables | | **752,139** |
| Prepayments, deposits and other receivables | | **932,174** |
| Trade and bills payables | | **(898,502)** |
| Tax payable | | **(87,833)** |
| Other payables and accruals | | **(189,164)** |
| Due to related companies, net | | **(1,187,855)** |
| Provisions | 29 | **(166,876)** |
| Bank borrowings | | **(149,030)** |
| Deferred tax liabilities | 33 | **(29,305)** |
| Pensions and other post-employment benefits | 34 | **(122,046)** |
| Minority interests | | **(688,372)** |
| | | **1,528,611** |
| Negative goodwill on acquisition | 17 | **(597,836)** |
| | | **930,775** |
| Satisfied by: | | |
| Cash | | **213,785** |
| 33% interests in the Group's TV business | | **630,388** |
| Costs associated with the acquisition | | **86,602** |
| | | **930,775** |

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

| | 2004<br>HK$'000 |
|---|---|
| Cash paid | **(300,387)** |
| Cash and bank balances acquired | **140,910** |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | **(159,477)** |

## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (a) Acquisition of subsidiaries (Continued)

On 30 July 2004, the Group acquired 67% equity interest in Thomson TV business under the Combination Agreement. Further details of the transaction are included in note 18(a) to the financial statements. Since its acquisition, Thomson TV business contributed HK$7,709,280,000 to the Group's turnover and incurred a consolidated loss after tax and before minority interests amounting to HK$218,703,000 for the year ended 31 December 2004.

On 28 May 2004, the Group acquired 70% equity interest in Wuxi Co and 100% equity interest in Inner Mongolia Co, further details of which are included in notes 18(b) and 18(c) to the financial statements, respectively. The results of the subsidiaries acquired had no significant impact on the Group's consolidated turnover or profit after tax during the year.

### (b) Disposal of subsidiaries

| | **2004** **HK$'000** | 2003 HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Fixed assets | **2,391** | 2,272 |
| Goodwill | **4,673** | — |
| Inventories | **555** | 9,218 |
| Cash and bank balances | **2,958** | 5,232 |
| Trade and bills receivables | **551** | 10,314 |
| Prepayments, deposits and other receivables | **3,129** | 9,040 |
| Trade and bills payables | **(243)** | (24,175) |
| Other payables and accruals | **(2,729)** | (749) |
| Short term bank loan | **(943)** | — |
| Tax payable | **(374)** | — |
| Minority interests | **(5,034)** | — |
| | **4,934** | 11,152 |
| Gain/(loss) on disposal | **(2,075)** | 1,331 |
| Satisfied by cash | **2,859** | 12,483 |

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

| | **2004** | 2003 |
|---|---|---|
| Cash consideration received | **2,859** | 12,483 |
| Cash and bank balances disposed of | **(2,958)** | (5,232) |
| Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries | **(99)** | 7,251 |

## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Disposal of subsidiaries (Continued)

The results of the subsidiaries disposed of in the current year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

## 38. OPERATING LEASE ARRANGEMENTS

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 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Within one year | **25,415** | 38,950 |
| In the second to fifth years, inclusive | **17,192** | 26,907 |
| After five years | **222** | 345 |
| | **42,829** | 66,202 |

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

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Within one year | **225** | 807 |
| In the second to fifth years, inclusive | **346** | 628 |
| After five years | **—** | 74 |
| | **571** | 1,509 |

## 39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for | **134,639** | 187,436 |

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

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for | **88** | 4,418 |

## 40. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bills discounted with recourse | **46,396** | 64,882 | **—** | — |
| Guarantees given to banks in connection with banking facilities granted to subsidiaries | **—** | — | **1,265,712** | 839,942 |
| Guarantees given to a bank in connection with banking facilities granted to a jointly-controlled entity | **—** | — | **—** | 3,673 |
| Guarantees given in lien of utility and rental deposits | **3,525** | — | **—** | — |
| | **49,921** | 64,882 | **1,265,712** | 843,615 |

As at 31 December 2004, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$545 million (2003: HK$391 million).

## 41. RELATED PARTY TRANSACTIONS

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 | **2004** HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| Jointly-controlled entities: | | | |
| Sale of raw materials | (i) | **1,400,358** | 1,356,348 |
| Sale of finished goods | (ii) | **78,592** | — |
| Purchases of raw materials | (iii) | **—** | 5,252 |
| Purchases of finished goods | (iii) | **1,497,427** | 1,469,536 |
| Companies controlled by the ultimate holding company: | | | |
| Sale of raw materials | (i) | **29,151** | 9,619 |
| Purchases of raw materials | (iii) | **581,500** | 434,641 |
| Purchases of finished goods | (iii) | **41,501** | 25,967 |
| Sales handling fee income | (iv) | **858** | 9,370 |
| Subcontracting fee expense | (v) | **16,926** | 4,301 |
| Contract fee expense | (vi) | **—** | 29,555 |
| Cash discounts | (vii) | **—** | 12,728 |
| Interest expense | (viii) | **20,368** | — |
| Company controlled by a jointly-controlled entity: | | | |
| Sale of raw materials | (i) | **—** | 31,575 |
| Purchases of raw materials | (iii) | **—** | 77,787 |
| Thomson S.A. and its affiliates: | | | |
| Sale of finished goods | (ii) | **351,743** | — |
| Purchases of raw materials | (iii) | **1,738,305** | — |
| Purchases of finished goods | (ix) | **1,024,748** | — |
| Agency fee and cost reimbursement expenses | (x) | **454,977** | — |
| Styling service fee expense | (x) | **18,980** | — |
| Shared service fee expense | (x) | **129,336** | — |
| Interest expense | (xi) | **9,083** | — |
| Royalty expense | (xii) | **18,670** | — |
| Reimbursement of brand advertising costs | (xiii) | **11,973** | — |
| Strategic sourcing fee expense | (xiv) | **11,848** | — |

Notes:

(i) The sale of raw materials were made at cost.

(ii) The sale of finished goods were carried out by reference to the prevailing market price for comparable transactions.

## 41. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

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

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

(v) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.

(vi) The contract fee was the sum of the following:

(1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and

(2) Depreciation costs of the contracted operation for this financial year.

(vii) The cash discounts paid were calculated as follows:

(1) For amounts settled within the credit period, the cash discount was calculated at a monthly rate of 0.465%.

(2) For settlement within the credit period, the amount of settlement by cash over 70% of the total settlement attracted a cash discount calculated at a monthly rate of 0.465%.

(viii) Interest was charged at 5.022% (10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

(ix) Purchases were made at terms such that the Group shall incur no loss and realise no profit from the arrangement.

(x) Agency fee, cost reimbursement, styling service fee and shared service fee expenses were charged by Thomson S.A. at cost.

(xi) Interest was charged at 2.36% per annum, being the cost of fund of Thomson S.A.

(xii) Royalties were charged at rate ranges that are consistent with the rates offered by Thomson S.A. to other television manufacturers and vary according to the country in which the colour television receivers are manufactured.

(xiii) Brand advertising costs represents advertising cost incurred by Thomson S.A. and were reimbursed by the Group at cost 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.

(xiv) Strategic sourcing fee expense was charged at an annual fee of Euro2.85 million (approximately HK$26.79 million).

## 42. POST BALANCE SHEET EVENT

On 25 February 2005, the name of the Company was changed from "TCL International Holdings Limited" to "TCL Multimedia Technology Holdings Limited" in English and from "TCL 國際控股有限公司" to "TCL 多媒體科技控股有限公司" in Chinese.

## 43. COMPARATIVE AMOUNTS

In order to better reflect the Group's financial results and position after the group restructuring in the current year, the presentation of geographical segment was changed, with new segments of Europe and North America added, and Hong Kong combined with Others in the comparative amounts of 2003.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2005.

# Five Years 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 reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2004** | 2003 | 2002 | 2001 | 2000 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| TURNOVER | **25,599,840** | 15,148,652 | 12,187,549 | 9,609,735 | 8,569,198 |
| PROFIT BEFORE TAX | **439,236** | 733,690 | 653,905 | 316,712 | 459,197 |
| Tax | **(143,563)** | (84,093) | (61,213) | (25,780) | (32,888) |
| PROFIT BEFORE MINORITY INTERESTS | **295,673** | 649,597 | 592,692 | 290,932 | 426,309 |
| Minority interests | **21,041** | (7,748) | (19,041) | 898 | 1,456 |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | **316,714** | 641,849 | 573,651 | 291,830 | 427,765 |
| **ASSETS, LIABILITIES AND MINORITY INTERESTS** | | | | | |
| Total assets | **16,902,901** | 8,669,896 | 7,790,107 | 5,775,285 | 5,411,321 |
| Total liabilities | **(12,549,943)** | (4,449,566) | (4,163,739) | (2,804,839) | (2,827,717) |
| Minority interests | **(1,422,082)** | (100,079) | (60,378) | (36,508) | (16,993) |
| | **2,930,876** | 4,120,251 | 3,565,990 | 2,933,938 | 2,566,611 |

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