THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in TCL International Holdings Limited, you should at once hand the Circular, together with the enclosed form of proxy, to the purchaser or other transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Circular is not an offer for sale or subscription of any securities of TCL International Holdings Limited nor a solicitation of an offer to buy or subscribe for any securities of TCL International Holdings Limited.

TCL

TCL INTERNATIONAL HOLDINGS LIMITED

TCL 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

MAJOR AND CONNECTED TRANSACTIONS
COMBINATION AGREEMENT FOR ESTABLISHMENT OF TTE CORPORATION
EXCHANGE OPTION AGREEMENT

CONNECTED TRANSACTIONS
ACQUISITION OF WUXI AND INNER MONGOLIA ASSETS
CALL OPTION AGREEMENT
DVD OPTION AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
OPERATION AGREEMENTS

Financial adviser to the Company

Morgan Stanley

Independent financial adviser to the Independent Board Committee

COMMERZBANK

A letter from the Board is set out on pages 8 to 52 of the Circular.

A letter from the Independent Board Committee is set out on page 53 of the Circular.

A letter from Commerzbank, the independent financial adviser, containing its advice to the Independent Board Committee is set out on pages 54 to 86 of the Circular.

A notice convening the extraordinary general meeting of TCL International Holdings Limited to be held at 2:00 p.m. on Friday, 2 July 2004 at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 179 to 182 of the Circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

31 May 2004

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In the Circular, the following expressions have the following meanings unless the context otherwise requires:

"Accountants' Report"	the accountants' report on the Thomson TV Business as set out in Appendix I to the Circular
"Acquisition"	the acquisition of the Wuxi and Inner Mongolia Assets contemplated under the Wuxi Agreement and the Inner Mongolia Agreement entered into between the Group and the TCL Corp Group
"Angers Factory"	the factory operated by Thomson for the production of TV products, sub-assemblies and modules and located at Angers, France
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day other than (a) Saturday or Sunday or (b) any other day on which commercial banks in (i) Huizhou, PRC, (ii) Hong Kong or (iii) Paris, France are required or authorized by law or executed orders to be closed
"Call Option"	the option to be granted by Thomson to the Company to purchase from Thomson an aggregate of no less than 2.5 million shares (of nominal value of €3.75 (about HK$35.25) each) of Thomson at the exercise price of €18.12 (about HK$170.33) per share under the Call Option Agreement
"Call Option Agreement"	the call option agreement to be entered into between Thomson and the Company on or prior to Closing, details of which are described in the paragraph headed "Call Option Agreement" in the section headed "Corporate Documents" in the Letter from the Board as contained in the Circular
"Caps"	the proposed annual limits for the values of the partially exempt and non-exempt continuing connected transactions
"Circular"	this circular issued by the Company dated 31 May 2004 in respect of, among other things, the Combination Agreement, the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, certain other Transaction Documents to which the Group is a party and the continuing connected transactions contemplated under the Operation Agreements
"Closing"	the closing of the transactions contemplated under the Combination Agreement

"Closing Date"	the fifth Business Day after the day on which the last of the conditions precedent (other than any conditions precedent that by their nature are to be satisfied at the Closing) is satisfied or waived in accordance with the Combination Agreement; or such other date as the Company and Thomson may agree in writing
"Colour Television Receivers"	colour television receivers that utilize colour CRT as the display device and shall include both complete receivers as well as such receivers which are complete except for cabinets or other permanent housings, but excluding any CRT integrated into or used in connection with such colour television receivers
"Combination"	the combination of the respective TV businesses and assets of the Thomson Group and the Group (including the Wuxi and Inner Mongolia Assets purchased by the Group from the TCL Corp Group) to be held and managed by TTE pursuant to the Combination Agreement
"Combination Agreement"	the combination agreement dated 28 January 2004 (together with subsequent amendments) entered into by the Company, Thomson and TCL Corp in respect of the establishment of TTE, a summary of which is set out in the section headed "Combination Agreement dated 28 January 2004" in the Letter from the Board as contained in the Circular
"Combination Announcement"	the announcement of the Company dated 30 January 2004
"Commerzbank"	Commerzbank AG, through its Hong Kong Branch, the independent financial adviser to the Independent Board Committee
"Company"	TCL International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Corporate Documents"	the agreements forming part of the Transaction Documents, details of which are described in the section headed "Corporate Documents" in the Letter from the Board as contained in the Circular
"CRT"	cathode ray tube
"Director(s)"	the director(s) of the Company
"DVD"	digital versatile disc
"DVD Device"	any home apparatus primarily for playing or recording DVDs so that they may be visually observed through another device, excluding any amplified home theater products and components (including optical pickups, optical modules and remote control units) for DVD Devices

"DVD Option"	the irrevocable option to be granted by Thomson to the Company to purchase the Thomson DVD Business under the DVD Option Agreement
"DVD Option Agreement"	the DVD option agreement to be entered into between Thomson, the Company and TTE on or prior to Closing pursuant to the Combination Agreement, details of which are described in the paragraph headed "DVD Option Agreement" in the section headed "Corporate Documents" in the Letter from the Board as contained in the Circular
"EBIT"	for any person, on a consolidated basis, the algebraic sum of (a) net income of such person, (b) net interest expense, and (c) tax expenses
"EGM"	the extraordinary general meeting of the Company to be convened to approve, among others, the Combination Agreement (including the Transaction Documents to which the Group is a party) and the transactions contemplated thereunder, including the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement and the non-exempt continuing connected transactions contemplated under the Operation Agreements
"Enlarged Group"	the Group as enlarged upon Closing
"Exchange Option"	the irrevocable exchange option to be granted by the Company to Thomson under the Exchange Option Agreement
"Exchange Option Agreement"	the exchange option agreement to be entered into between the Company and Thomson on or prior to Closing pursuant to the Combination Agreement, details of which are described in the paragraph headed "Exchange Option Agreement" in the section headed "Corporate Documents" in the Letter from the Board as contained in the Circular
"Existing Wuxi Shareholder"	Wuxi Electronic Instrument Operation Company Limited (無錫市電儀資產經營有限公司), an enterprise established in the PRC, an independent third party not connected with the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
"Global Note"	global note representing up to HK$350,000,000 3% convertible notes due 2005 issued by the Company on 22 August 2003
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	an independent board committee of the Board comprising the sole member Dr. Hon Fong Ming, an independent non-executive Director, established to advise the Independent Shareholders in respect of the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement and the Relevant Continuing Connected Transactions
"Independent Shareholders"	in respect of the connected transactions proposed to be voted at the EGM, shareholders that are not required under the Listing Rules to abstain from voting to approve such connected transactions
"Inner Mongolia Agreement"	the conditional sale and purchase agreement dated 28 May 2004 entered into between TCL BVI as purchaser and TCL Corp and TCL Home Appliances as vendors, for the sale and purchase of the Inner Mongolia Assets
"Inner Mongolia Assets"	the 100% interest of TCL Corp in Inner Mongolia Co, an enterprise established in the PRC, which operates a TV manufacturing plant located in Inner Mongolia, the PRC
"Inner Mongolia Co"	Inner Mongolia TCL Electrical Appliance Company Limited (內蒙古 TCL 王牌電器有限公司), an enterprise established in the PRC operating TV manufacturing plant located in Inner Mongolia, the PRC
"Latest Practicable Date"	27 May 2004, being the latest practicable date prior to the printing of the Circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited from time to time
"Memorandum of Understanding"	the memorandum of understanding dated 3 November 2003 and made between the Company, TCL Corp and Thomson
"Mobile Interest"	the 40.8% ownership interest of the Group in TCL Mobile including all right, title and interest in and to any assets and equity securities of the Group primarily related to the business of TCL Mobile
"Mobile Spin-Off"	the sale, disposition, divestiture or transfer of the Mobile Interest to any person other than a Group member or a TTE Group member and the distribution of all the consideration in relation thereto, if any
"Noteholder"	holder of the Global Note
"Operation Agreements"	the agreements forming part of the Transaction Documents concerning the future operation of TTE and stipulated under the Combination Agreement to be entered into between TTE and Thomson Group or TCL Corp Group on or prior to Closing, details of which are described in the section headed "Operation Agreements" in the Letter from the Board as contained in the Circular

"PRC" or "China"	the People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of the Circular
"Previous Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited in force immediately preceding the coming into force of the substantially amended Listing Rules on 31 March 2004
"R&D"	research and development
"Relevant Continuing Connected Transactions"	the non-exempt Thomson continuing connected transactions described in the paragraphs headed "Non-exempt Thomson Continuing Connected Transactions", and the non-exempt TCL Corp continuing connected transactions described in the paragraph headed "Non-exempt TCL Corp Continuing Connected Transactions" in the Letter from the Board as contained in the Circular
"Relevant Ratio"	any of the five ratios set out in Rule 14.07 of the Listing Rules which are relevant in categorizing the transactions contemplated under the Combination Agreement (as disclosed in this Circular) (for the purpose of categorizing the continuing connected transactions, the profit ratio is not applicable)
"RMB"	Renminbi, the lawful currency of PRC
"Sales Company"	TCL Electrical Appliance Sales Co., Ltd. (惠州 TCL 電器銷售有限公司), a company established under the laws of the PRC, which is owned as to 51% and 49% by the Group and TCL Corp respectively
"Sales Interest"	the 49% ownership interest of TCL Corp in the Sales Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Share Exchange"	the exchange by Thomson the shares in TTE to be issued to Thomson at Closing for Shares pursuant to the Exchange Option Agreement
"Share Option Schemes"	the share option scheme adopted by the Company and approved by the Shareholders on 15 November 1999 and terminated on 12 May 2003, and the existing share option scheme adopted by the Company and approved by Shareholders on 12 May 2003
"Shareholder"	holder of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCL BVI"	TCL Holdings (BVI) Limited, a company established under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company

"TCL Corp"	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on the Shenzhen Stock Exchange and is the ultimate controlling shareholder of the Company
"TCL Corp Group"	TCL Corp and its subsidiaries (excluding members comprising the Group)
"TCL Home Appliances"	TCL Home Appliances (Huizhou) Company Limited (TCL家用電器(惠州)有限公司), a company established under the laws of the PRC and is a wholly-owned subsidiary of TCL Corp
"TCL Huhehaote"	TCL King Electrical Appliances (Huhehaote) Co., Ltd. (TCL王牌電器(呼和浩特)有限公司), a wholly foreign-owned enterprise established in the PRC, an indirect wholly-owned subsidiary of the Company
"TCL Industries"	T.C.L. Industries Holdings (H.K.) Limited, a company established under the laws of Hong Kong, the direct controlling shareholder of the Company and a wholly-owned subsidiary of TCL Corp
"TCL Mobile"	Huizhou TCL Mobile Communication Co., Ltd. (惠州TCL移動通信有限公司), a company established under the laws of the PRC
"TCL Wuxi"	TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL王牌電器(無錫)有限公司), a sino-foreign joint venture enterprise established in the PRC in which the Company indirectly holds a 70% interest through TCL BVI
"Thomson"	Thomson S.A., a company incorporated under the laws of France, whose shares are listed on the *Premier Marché* of Euronext Paris S.A. and on the New York Stock Exchange in the form of American depository shares
"Thomson DVD Business"	the business of Thomson Group of R&D, manufacturing, distribution and sales of DVD Devices
"Thomson Group"	Thomson and its subsidiaries
"Thomson TV Business"	the TV businesses and assets to be injected by Thomson into TTE pursuant to the Combination Agreement
"TLSA"	Thomson Licensing S.A., a company incorporated under the law of France and a wholly-owned subsidiary of Thomson
"Transaction Documents"	the agreements stipulated under the Combination Agreement to be entered into by the relevant parties on or prior to the Closing in relation to the combination of the respective TV businesses and assets of the Group and the Thomson Group and the future operation of TTE

"TTE"	a company to be established pursuant to the Combination Agreement to be named as TTE Corporation
"TTE Board"	the Board of TTE
"TTE Group"	TTE and its subsidiaries
"TTE Share(s)"	share(s) of equity securities of TTE
"TV"	television
"TV Products"	TVs, other audio visual devices, components of the foregoing devices and similar or substitutable devices and devices compatible with or ancillary or related to such foregoing devices
"U.S." or "USA"	the United States of America
"Wuxi Agreement"	the conditional sale and purchase agreement dated 28 May 2004 entered into between TCL BVI as purchaser and TCL Industries as vendor, for the sale and purchase of the Wuxi Assets
"Wuxi and Inner Mongolia Assets"	the Wuxi Assets and the Inner Mongolia Assets
"Wuxi Assets"	the 70% interest of TCL Corp in Wuxi Co, the remaining 30% interest of which is being held by Existing Wuxi Shareholder
"Wuxi Co"	TCL Digital Science and Technology (Wuxi) Company Limited (TCL 數碼科技(無錫)有限公司), a sino-foreign joint venture enterprise established in the PRC, which operates a TV manufacturing plant located in Wuxi, the PRC
"Euro" or "€"	Euro, the single currency of the participating member states from time to time of the European Union that adopt such currency in accordance with the Treaty on European Union signed on 7 February 1992 as amended

For your convenience, this circular contains translation between Hong Kong dollars and Euro at HK$9.4 = €1 and between Renmibi amounts and Hong Kong dollars at RMB1.06 = HK$1, being the exchange rates prevailing on 27 May 2004. The translations shall not be taken as representations that the Hong Kong dollars and Renminbi amounts could actually be converted into Euro or Hong Kong dollars at those rates, or at all.

TCL INTERNATIONAL HOLDINGS LIMITED

TCL 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Executive Directors:
Li Dong Sheng,Tomson *(Chairman)*
Lu Zhong Li
Hu Qiu Sheng
Zhao Zhong Yao
Yan Yong *(Managing Director)*
Suen Hay Wai

Independent non-executive Directors:
Hon Fong Ming
Albert Thomas da Rosa, Junior

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

31 May 2004

To the Shareholders and for information only,
the holders of the options granted under the
Share Option Schemes and the Noteholder

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS
COMBINATION AGREEMENT FOR ESTABLISHMENT
OF TTE CORPORATION
EXCHANGE OPTION AGREEMENT

CONNECTED TRANSACTIONS
ACQUISITION OF WUXI AND INNER MONGOLIA ASSETS
CALL OPTION AGREEMENT
DVD OPTION AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
OPERATION AGREEMENTS

INTRODUCTION

Reference is made to the following announcements of the Company:

(1) the announcement dated 3 November 2003 relating to the signing of the Memorandum of Understanding for the Combination;

(2) the announcement dated 30 January 2004 relating to the signing of the Combination Agreement; and

(3) the announcement of the Company relating to the finalisation of the Transaction Documents (including the Operation Agreements which will constitute continuing connected transactions).

The Company has strived to restructure its portfolio of businesses to focus primarily on multi-media electronic products (including televisions and computers) and to significantly expand its business overseas. Accordingly, the Company has been considering various options for restructuring its interests in businesses other than its multi-media businesses. The signing of the Combination Agreement for the establishment of TTE to combine the respective TV businesses and assets of the Group and the Thomson Group represented a significant step in achieving the goal towards further expansion overseas. The Board believes that the Combination will make TTE a major global player in the business of TV R&D, manufacture, sales and distribution.

As noted in the Combination Announcement, the value of the assets to be acquired pursuant to the Combination Agreement constitutes more than 50% but less than 100% of the latest published unaudited consolidated net tangible assets value of the Company for the nine months ended 30 September 2003. The acquisition of these assets therefore constitutes a major transaction under the Previous Listing Rules which apply as the Combination Agreement was entered into on 28 January 2004. As part of its contribution under the Combination, the Company is required to purchase from TCL Corp Group the Wuxi and Inner Mongolia Assets and contribute these assets to the TTE Group. TCL Corp is a controlling shareholder of the Company holding approximately 54.2% of the existing issued share capital of the Company. The acquisition of these assets by the Company will therefore constitute connected transaction under the Listing Rules.

Following Closing, the entire issued share capital of TTE will be held as to 67% and 33% by the Company and Thomson respectively.

The obligations of the parties to the Combination Agreement are subject to fulfillment of a number of conditions including, among others, the execution of the Transaction Documents. The Transaction Documents include the Corporate Documents which relate to the effecting of the Combination, and the Operation Agreements which concern the future operation of TTE and would provide the TTE Group with a broad range of services to conduct its business globally. The Operation Agreements are to be entered into between TTE as a party and Thomson Group or TCL Corp Group as the counter party and will constitute continuing connected transactions of the Company under the Listing Rules.

The main purposes of this Circular are (a) to provide you with further information relating to the Combination Agreement, the Acquisition, the Transaction Documents to which the Group is a party, including the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement and the Relevant Continuing Connected Transactions contemplated under the Operation Agreements, (b) to set out the letter of advice from Commerzbank to the Independent Board Committee and recommendation and opinion of the Independent Board Committee as advised by Commerzbank in relation to the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement and the Relevant Continuing Connected Transactions and (c) to seek your approval at the EGM of the ordinary resolutions in relation to the Combination Agreement, the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the proposed Caps.

COMBINATION AGREEMENT DATED 28 JANUARY 2004

Parties

1.	The Company	
2.	Thomson,	an independent third party not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
3.	TCL Corp,	the ultimate controlling shareholder of the Company holding approximately 54.2% of the issued share capital of the Company

Assets and businesses to be contributed by the Thomson Group

Pursuant to the Combination Agreement, Thomson is required to contribute the following businesses and assets to the TTE Group:

1. Thomson TV Businesses currently being conducted by the following legal entities or operating units within the Thomson Group:

   — RCA Componentes S.A. de C.V. — primarily TV manufacturing (Mexico)

   — Manufacturas Avanzadas, S.A. de C.V. — primarily TV manufacturing (Mexico)

   — Thomson Televisiones de Mexico, S.A. de C.V. — primarily TV manufacturing (Mexico)

   — Thomson Manufacturing Operations (Thailand) Co Ltd — primarily TV manufacturing (Thailand)

   — Thomson Zhaowei Multimedia Company Limited — primarily TV manufacturing (China)

   — Thomson India Pvt Ltd — primarily TV manufacturing (India)

   — Thomson Multimedia Polska Zyrardow — primarily TV manufacturing (Poland);

2. R&D centres which conduct TV related research and development for the Thomson TV Business located in the following places (a) Villingen (Germany) (mainly for development of high-end analog TV); (b) Indianapolis (U.S.) (mainly for development of high-end digital TV); and (c) India and Singapore (for development of TV generally);

3. €70 million (about HK$658 million) in cash;

4. Grant of an option to TTE to acquire Thomson DVD Business worldwide for no additional consideration before 31 December 2004, (if such option is not exercised, Thomson's obligation is to contribute €20 million (about HK$188 million) worth of additional assets in the form of current or non-current assets, cash or a dilution of Thomson's interest in TTE);

5. Reimbursement of up to €33 million (about HK$310.2 million) of certain restructuring costs and expenses of TTE incurred in relation to Thomson TV Business within the first two years of Closing, subject to certain adjustment as may be agreed by the parties;

6. Certain current assets and an equal amount of current liabilities in net book value, including raw materials, work-in-progress and certain accounts payable of the Thomson TV Business; and

7. Other fixed assets, including production equipment such as tooling assets from other Thomson entities connected to the Thomson TV Business.

Pursuant to the Combination Agreement, other than €70 million cash contributed Thomson will not contribute any working capital to TTE. Further, Thomson will give TTE a non-competition undertaking under which Thomson undertakes not to engage in design and manufacturing of TVs in competition with TTE. Accordingly, Thomson will transfer to TTE all its existing raw materials, work-in-progress and an equal amount of accounts payable in respect of the Thomson TV Business as described in 6 above. Similarly, TTE will have an option to acquire all of the TV-related finished goods from Thomson by assuming an equal amount of accounts payable of Thomson in respect of the Thomson TV Business at Closing. As the Thomson TV Business is operating as an ongoing concern, the exact extent of the current assets and liabilities and tooling equipment to be transferred to TTE cannot be ascertained until Closing.

Based on the net book value of the fixed assets of the Thomson TV Business as set out in the Accountants' Report in Appendix I to the Circular as at 31 December 2003 and the amount of fixed assets and cash agreed to be contributed by the Thomson Group, the total net tangible asset value of assets to be contributed by Thomson to the TTE Group is estimated to amount to approximately €218 million (about HK$2,049 million).

The net sales of the Thomson TV Business for the year ended 31 December 2003 were approximately €1,708 million (about HK$16.1 billion), representing approximately 53.4% of the aggregate turnover generated through the sale of consumer electronics products by the Thomson Group. The majority of the Thomson TV products are sold in the U.S. under the "RCA" brand and in Europe under the "Thomson" brand. In 2003, the Thomson TV products had a market share of approximately 10.9% in the North American market, and approximately 8% in the European market (including France, Germany, England, Italy and Spain). Thomson's investments in R&D amounted to approximately €48 million (about HK$451.2 million) in 2003, representing approximately 2.8% of its TV net sales.

Assets and businesses to be contributed by the Company

Pursuant to the Combination Agreement, the Company is required to contribute to the TTE Group its entire TV businesses including all its fixed assets relating to TV business amounting to approximately €90 million (about HK$846 million), currently comprising TV businesses and assets located in the PRC, Germany and South East Asia and all its net working capital associated with its TV business other than cash or cash equivalent. The contribution as set out above will include the Wuxi and Inner Mongolia Assets to be purchased by the Group from the TCL Corp Group (for details please refer to the section headed "Acquisition of the Wuxi and Inner Mongolia Assets" below). The total net tangible asset value of the TV businesses to be contributed by the Company to TTE is expected to amount to €210 million to €230 million (about HK$1,974 million to HK$2,162 million).

Issue of shares of TTE to the Company and Thomson

TTE will initially be a wholly-owned subsidiary of the Company. The Company will inject its entire TV business (as described in the paragraph headed "Assets and businesses to be contributed by the Company" above) into TTE. In consideration of the contribution by Thomson of the Thomson TV Business to the TTE Group, TTE will issue to Thomson new shares representing 33% of the enlarged issued share capital of TTE. The Company will own the remaining 67% of the enlarged issued share capital of TTE.

The number of shares to be issued to the Company and Thomson in TTE has been arrived at on the basis of arm's length negotiations between the two parties, taking into consideration, amongst other things, the assets and businesses being contributed by both parties, the terms of the Operation Agreements, an assessment of brand presence, technology capabilities and distribution coverage of the TV businesses of the Group and the Thomson Group in their respective markets and the likely synergies from the Combination. It is expected that the combined net asset value of TTE will amount to €428 million (about HK$4,023 million) (equivalent to the sum of the net asset value of Thomson TV Business of €218 million (about HK$2,049 million) and the net asset value of the TV assets and business of the Group (including the Wuxi and Inner Mongolia Assets) of €210 million (about HK$1,974 million)). Accordingly, the net asset value attributable to the Company's shareholding in TTE is approximately €287 million (about HK$ 2,697 million).

Corporate structure before and after the Combination and the establishment of TTE

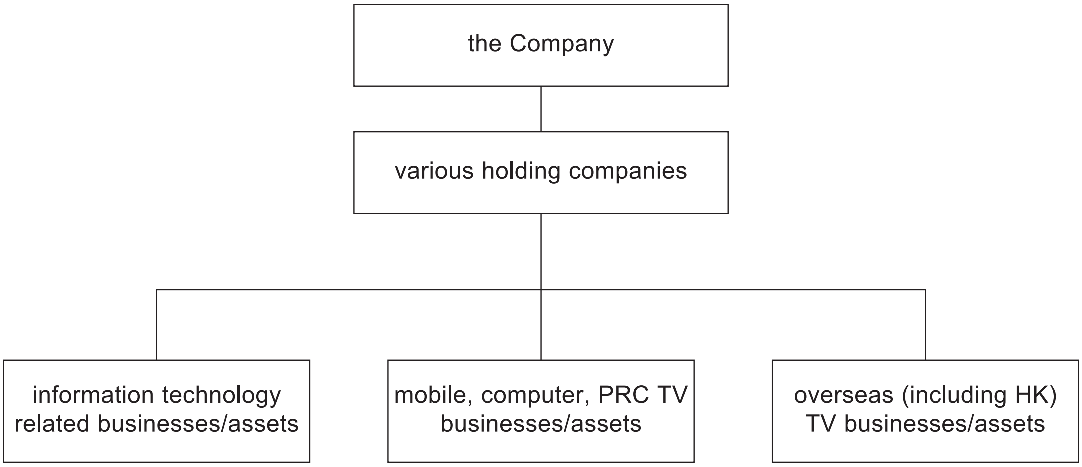
The Directors believe that the Combination will create a major global player in the business of R&D of TV technologies and manufacture, sales and distribution of TV products with an annual production capacity of approximately 21 million units and a strong presence in all major markets. It is currently estimated that TTE will own combined assets of total net asset value of approximately €428 million (about HK$4,023 million).

It is intended that the principal business of TTE will be conducting, directly or indirectly, the following activities on a global basis (a) R&D of TV technologies, (b) designing, manufacturing, distributing and selling TV Products, (c) licensing intellectual property for TV Products, (d) providing goods and services relating to TV Products, and (e) undertaking activities associated or ancillary to any of the foregoing.

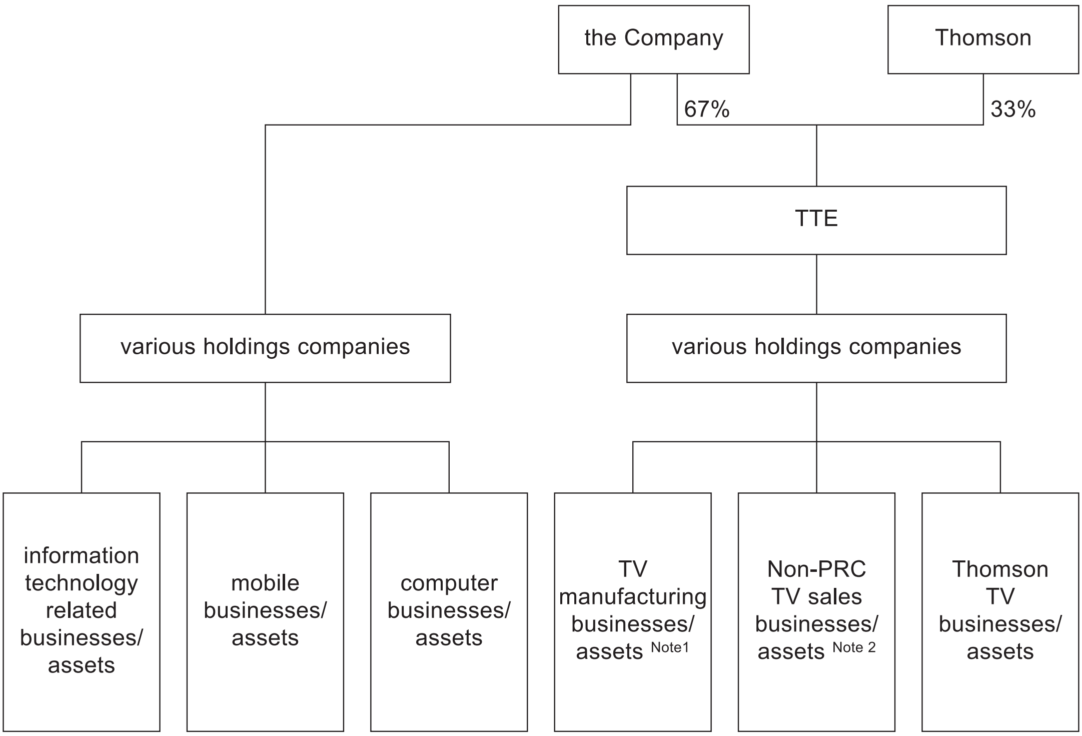
TTE will be organized as a stand-alone business with an arm's length relationship with the Group and the Thomson Group such that TTE will define its strategies and operate its business in a way to foster its long-term competitiveness and maximize profitability. All transactions to be entered into between the TTE Group and any TTE's shareholders or their affiliates will generally be on terms and conditions no less favourable to the TTE Group than would be applicable in comparable transactions between the TTE Group and independent third parties acting at arm's length.

Set out below is the effect of the Combination Agreement on the Group's corporate structure.

Before Closing of the Combination Agreement



After Closing of the Combination Agreement



Note 1: including the Wuxi and Inner Mongolia Assets

Note 2: excluding the Group's interest in the Sales Company

The respective obligations of the parties to the Combination Agreement are subject to fulfillment or waiver of, among others, the following conditions on or prior to the Closing Date:

(a) the transactions contemplated under the Combination Agreement and the Transaction Documents have been approved by the Shareholders or the Independent Shareholders (as the case may be);

(b) all government and regulatory authorities approvals required to consummate the transactions contemplated under the Combination Agreement and the Transaction Documents have been obtained; and

(c) execution of all Transaction Documents.

Closing is now expected to take place in July 2004.

ACQUISITION OF THE WUXI AND INNER MONGOLIA ASSETS

As noted from above, the Company is required to purchase from the TCL Corp Group for cash consideration of approximately RMB231.5 million (about HK$218.4 million) the Wuxi and Inner Mongolia Assets and contribute these assets to the TTE Group. TCL Corp, a controlling shareholder of the Company currently holding approximately 54.2% of the entire issued share capital of the Company, directly or indirectly owns the Wuxi and Inner Mongolia Assets. The Acquisition will therefore constitute a connected transaction for the Company under the Listing Rules and will require approval by the Independent Shareholders (that is to say TCL Corp and its associates will be required to abstain from voting for the Acquisition at the EGM).

Set out below is a summary of the major provisions of the agreements in respect of the Acquisition.

Wuxi Agreement dated 28 May 2004

Parties

(1) Vendor: TCL Industries, a direct wholly-owned subsidiary of TCL Corp and the direct holding company of the Company

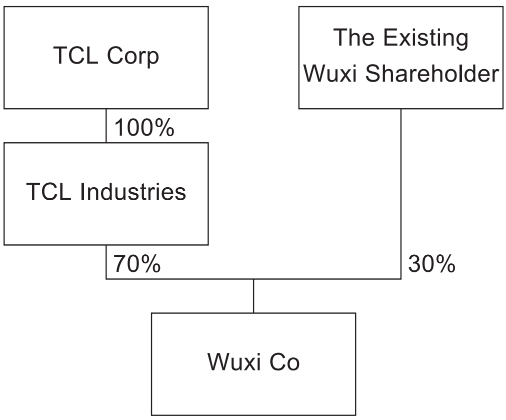
(2) Purchaser: TCL BVI, a direct wholly-owned subsidiary of the Company

Equity Interest to be Transferred

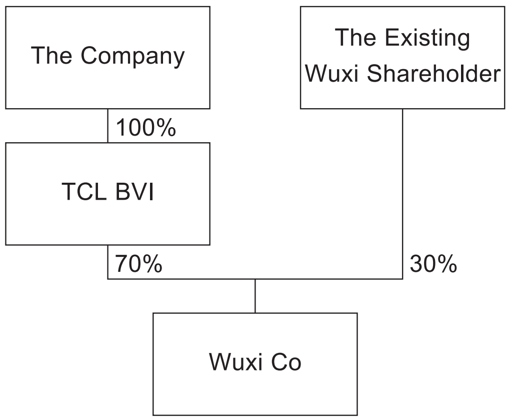
Wuxi Co is owned as to 70% by TCL Corp (held through TCL Industries) and 30% by the Existing Wuxi Shareholder, an independent third party not connected with the directors, chief executive, or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. The Wuxi Assets to be purchased by the Group represents a 70% equity interest in Wuxi Co. Upon completion of the transaction, the Group will hold a 70% equity interest in Wuxi Co and the TCL Corp Group will no longer hold any interest in Wuxi Co. The Existing Wuxi Shareholder will remain the owner of the remaining 30% equity interest in Wuxi Co.

Set out below are the shareholding structures of the Wuxi Co immediately before and immediately after completion of the Wuxi Agreement respectively:

Before Completion



After Completion



Consideration

The consideration for the purchase of the Wuxi Assets is RMB105.7 million (about HK$99.7 million) to be payable in cash by TCL BVI to TCL Industries on the date of completion of the Wuxi Agreement and will be funded from the internal resources of the Group.

Completion

Completion of the sale and purchase of the Wuxi Assets is conditional upon, among others, the following conditions being fulfilled on or before 30 September 2004:

(1) the Existing Wuxi Shareholder issuing a written acknowledgement confirming its agreement to the sale and purchase of the Wuxi Assets and its waiver of its first right of refusal in relation thereto;

(2) the Independent Shareholders having approved the Wuxi Agreement and the transactions contemplated thereunder; and

(3) all necessary approvals having been obtained from the relevant PRC authorities.

None of the above conditions can be waived and completion is expected to take place in July 2004.

Inner Mongolia Agreement dated 28 May 2004

Parties

(1) Vendors: (a) TCL Corp, the ultimate controlling shareholder of the Company

(b) TCL Home Appliances, an indirect wholly-owned subsidiary of TCL Corp

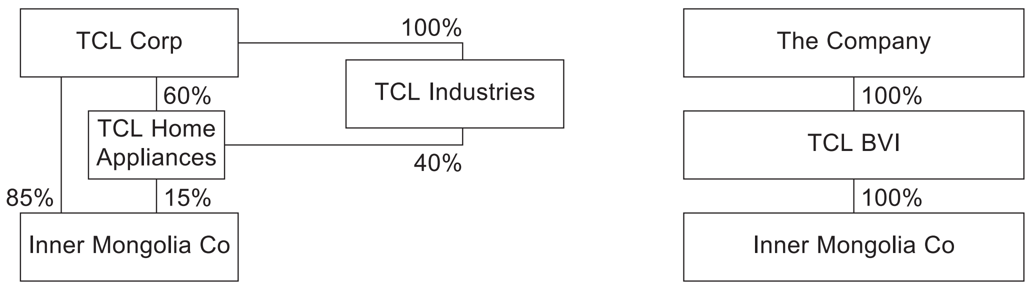
(2) Purchaser: TCL BVI

Equity Interest to be Transferred

Inner Mongolia Co is owned by TCL Corp and TCL Home Appliances as to 85% and 15% respectively. The Inner Mongolia Assets to be purchased by the Group represents the entire equity interest in Inner Mongolia Co. Upon completion of the transaction, the Group will hold the entire equity interest in Inner Mongolia Co and TCL Corp Group will no longer hold any interest in Inner Mongolia Co.

Set out below are the shareholding structures of Inner Mongolia Co immediately before and immediately after completion of the Inner Mongolia Agreement respectively:

Before Completion **After Completion**



Consideration

The total consideration for the purchase of the Inner Mongolia Assets is RMB125.8 million (about HK$118.7 million), of which RMB106.9 million (about HK$100.9 million) being 85% thereof and RMB18.9 million (about HK$17.8 million) being the remaining 15% thereof are payable in cash by TCL BVI to TCL Corp and TCL Home Appliances respectively on the date of completion of the Inner Mongolia Agreement and will be funded from the internal resources of the Group.

Completion

Completion of the sale and purchase of the Inner Mongolia Assets is conditional upon, among others, the following conditions being fulfilled on or before 30 September 2004:

(1) the Independent Shareholders having approved the Inner Mongolia Agreement and the transactions contemplated thereunder; and

(2) all necessary approvals having been obtained from the relevant PRC authorities.

None of the above conditions can be waived and completion is expected to take place in July 2004.

Basis for Determining the Consideration

Wuxi Co and Inner Mongolia Co have manufacturing plants with floor space of 54,000 sq. m. and 80,000 sq. m. respectively. Their respective average annual colour television production capacities are approximately 1.5 million and 1.5 million sets.

As at 31 December 2003, the net book values attributable to the Wuxi Assets and Inner Mongolia Assets in Wuxi Co and Inner Mongolia Co were RMB88.1 million (about HK$83.1 million) and RMB 97.2 million (about HK$91.7 million), respectively. The consideration for the purchase of the Wuxi and Inner Mongolia Assets has been arrived at after arm's length negotiation and on normal commercial terms and was determined by reference to the net asset value as at 31 December 2003 of RMB151.1 million (about HK$142.5 million) of Wuxi Co as disclosed in the valuation report dated 10 March 2004 issued by Wuxi Zhongxin Certified Public Accountants Co., Ltd. (無錫眾信會計師事務所有限公司), an independent PRC valuer and RMB125.8 million (about HK$118.7 million) of Inner Mongolia Co as disclosed in the valuation report dated 12 March 2004 issued by Neimenggu Huafang (Lianhe) Certified Public Accountants (內蒙古華方(聯合)會計師事務所), an independent PRC valuer.

The considerations for the purchase of the Wuxi and Inner Mongolia Assets accordingly represent approximately the net asset value of Wuxi Co and Inner Mongolia Co (per valuation report) attributable to the Wuxi and Inner Mongolia Assets, respectively.

The audited net profit before taxation and extraordinary items attributable to the Wuxi Assets for the year ended 31 December 2002 and 2003 were RMB3.0 million (about HK$2.8 million) and RMB8.7 million (about HK$8.2 million), respectively. The audited net profit after taxation and extraordinary items attributable to the Wuxi Assets for the year ended 31 December 2002 and 2003 were RMB3.0 million (about HK$2.8 million) and RMB8.0 million (about HK$7.6 million), respectively.

The audited net profit before taxation and extraordinary items of the Inner Mongolia Assets for the year ended 31 December 2002 and 2003 were RMB7.3 million (about HK$6.9 million) and RMB14.1 million (about HK$13.3 million), respectively. The audited net profit after taxation and extraordinary items of the Inner Mongolia Assets for the year ended 31 December 2002 and 2003 were RMB2.2 million (about HK$2.1 million) and RMB6.2 million (about HK$5.8 million), respectively.

Reasons for the Agreements

As disclosed above in the discussion of the Combination Announcement, the Company wishes to create a major global player in the business of TV R&D, manufacture, sales and distribution that will combine the resources of the respective TV related businesses and assets of the Group and the Thomson Group. It is intended under the Combination Agreement that the Company will purchase from the TCL Corp Group and contribute into TTE the Wuxi and Inner Mongolia Assets.

It is intended that Wuxi Co and Inner Mongolia Co will continue their business of operating TV manufacturing plants located in Wuxi and Inner Mongolia respectively.

TRANSACTION DOCUMENTS

The obligations of the parties to the Combination Agreement are subject to fulfillment of a number of conditions, including, among others, the execution of the Transaction Documents. The Transaction Documents will be entered into on or before Closing and will only become effective from the Closing Date. The Group will be a party to most of the Transaction Documents, which can largely be divided into two categories: (a) the Corporate Documents, which relate to the effecting of the Combination and related transactions, and on matters that are not directly related to the operations of TTE, and (b) the Operation Agreements, which concern the future operation of TTE and would provide the TTE Group with a broad range of services to facilitate the conduct of its business globally.

CORPORATE DOCUMENTS

Set out below are the Corporate Documents to which the Group will be a party (a total of 6 agreements) and a summary of their respective major terms.

1. Shareholders' Agreement

1.1 *Parties*

(a) TTE

(b) the Company

(c) Thomson

1.2 *Principal business of TTE*

TTE's principal business shall be conducting the following activities throughout the world:

(a) researching and developing TV technologies;

(b) designing TV Products;

(c) licensing intellectual property for TV Products;

(d) manufacturing, distributing and selling TV Products;

(e) providing goods and services relating to TV Products; and

(f) undertaking activities associated or ancillary to any of the foregoing.

1.3 *Relationship among TTE, the Company and Thomson*

The following principles govern the relationship between TTE, the Company and Thomson:

(a) TTE shall be organized as a stand-alone business with an arm's-length relationship with the Group and the Thomson Group;

(b) transactions between TTE and the Group or the Thomson Group shall be on terms no less favourable to TTE than those applicable to independent third parties at arm's length; and

(c) if the Group or the Thomson Group offers terms and conditions to TTE that are at least as favourable as those offered by an independent third party, TTE shall give preference to dealing with the Group or the Thomson Group, as applicable.

1.4 *Restrictions and pre-emptive rights on transfer of TTE shares*

The transfer or allotment of TTE Shares are subject to the following pre-emptive rights on transfer of shares:

(a) no shareholder of TTE shall sell, give, assign, pledge, grant any security interest in or otherwise dispose of or create any encumbrance on any TTE Share or any interest therein (each a "Transfer"), except for any Transfer to a subsidiary which its holding company owns no less than a 95% interest (the "Permitted Transferee"). On any Transfer to a party other than the Permitted Transferee, the prospective transferor must first offer the TTE Share to be transferred to the other existing shareholder(s) of TTE on the same terms and conditions. No TTE Shares may be issued and transferred to certain business competitors of TTE or their affiliates; and

(b) TTE shall not issue any securities to any person unless it has offered such securities to the existing shareholders of TTE in accordance with their respective pro rata shares on the same terms and conditions.

1.5 *Lock-up*

In addition to the Transfer restrictions as described in the preceding paragraph, a shareholder of TTE shall not:

(a) transfer any TTE Share in the first three years after the Closing Date;

(b) transfer more than an aggregate 20% of its initial shareholding in TTE from and after the third anniversary of the Closing Date, provided that a shareholder may sell an additional 15% of its initial shareholding in TTE if TTE's consolidated EBIT in the immediately prior financial year exceeds 120% of TTE's targeted consolidated EBIT of TTE for that year; or

(c) transfer more than an aggregate 20% of its initial shareholding in TTE (up to 40% cumulatively with the 20% in paragraph (b)) from and after the fourth anniversary of the Closing Date, provided that a shareholder may sell an additional 15% (up to 30% cumulatively with the 15% in paragraph (b)) of its initial shareholding in TTE if TTE's consolidated EBIT in the immediately prior financial year exceeds 120% of TTE's targeted consolidated EBIT for that year.

After the fifth anniversary of the Closing Date, a shareholder of TTE will no longer be subject to the foregoing lock-up restrictions but shall comply with other applicable Transfer restrictions.

1.6 *Corporate governance*

TTE will be subject to the following corporate governance arrangements:

(a) the TTE Board shall be responsible for the management and control of TTE and shall make all major decisions of TTE;

(b) the number of directors constituting the TTE Board shall be nine, of which the Company and Thomson are entitled to nominate six and three respectively;

(c) the chairman of the TTE Board shall be elected by majority vote of the directors and shall not have a casting vote;

(d) quorum of board meetings shall be three directors, which shall include at least two nominated by the Company, if the Company holds at least 13.25% of the then equity interest of TTE; and

(e) save for certain important actions that shall be jointly approved by at least one director nominated by each of the Company and Thomson, TTE matters are generally decided by vote of a majority of the directors of TTE. Actions requiring the joint approval include entering into material new business unrelated to its principal business, and distributing its distributable income in excess of 70% of its consolidated net profit in any financial year.

1.7 *Non-competition*

Each shareholder of TTE covenants to TTE that until the later of (a) the fifth anniversary of the Closing Date, and (b) the date such shareholder and its affiliates in aggregate no longer hold more than 33% of its initial holding in TTE, it and its subsidiaries shall not directly or indirectly conduct any business in competition with the TV design and manufacturing business carried on by the TTE Group unless such competing business is conducted in performance of its obligations under a Transaction Document.

1.8 *Term and termination*

The agreement will only become effective on the Closing Date and will continue in effect until the earlier of (a) the date a shareholder of TTE holds in excess of 90% of TTE Shares; (b) the date on which a bankruptcy event occurs with respect to any of TTE, the Company or Thomson; (c) the closing date of the Share Exchange when Thomson exercises the Exchange Option; and (d) any date agreed upon in writing by all of the Parties.

2. Exchange Option Agreement

2.1 *Parties*

(a) Grantor: the Company

(b) Grantee: Thomson

2.2 *Grant of Exchange Option*

Pursuant to the agreement, the Company will grant to Thomson an irrevocable option to exchange all (but not part) of its TTE Shares for new Shares to be issued by the Company.

The option is exercisable within the period from the earlier of (a) the completion of the Mobile Spin-Off and (b) 18 months after the Closing Date, and ending on, subject to certain extensions, the expiry of three months after the first public release of annual or semi-annual financial statements of the Company subsequent to the commencement of the exercise period.

2.3 *Number of Shares to be issued to Thomson on Share Exchange*

As the Combination involves only the TV business and assets of the Company and Thomson, in determining the number of Shares to be issued to Thomson on Share Exchange, the valuation of the Company is based on the premise that the Mobile Spin-Off will have been completed prior to the Share Exchange. The number of Shares to be issued to Thomson was computed based on arm's length negotiations between the Company and Thomson on the value of the Company's TV businesses and assets, the value of Thomson's TV businesses and assets being contributed to TTE and the combined value of the Company.

If the Mobile Spin-Off has been completed and the consideration received from the sale or divesture of the Mobile Interest (if any) has been distributed to the Shareholders at the time of the exchange, the number of Shares to be issued to Thomson in exchange for its 33% stake in TTE has been determined to be 1,149,140,810, which is approximately (but not equal to or exceeding) 30% of the aggregate of (a) the Shares issued by the Company at the close of business on 31 December 2003 and (b) the number of Shares to be issued to Thomson on Share Exchange, subject to adjustments for share split, consolidation, reclassification or extraordinary dividend payment as provided in the Exchange Option Agreement. The number of Shares to be issued to Thomson was computed based on arm's length negotiations between the Company and Thomson on the value of the Company, excluding the value of its Mobile Interest, relative to the combined value of the Company's and Thomson's TV businesses being contributed to TTE.

If the Mobile Spin-Off has not been completed at the time of the exchange, the number of Shares to be allotted and issued to Thomson on Share Exchange will depend on the relative valuation of Thomson's stake in TTE and the valuation of the Company (including the value of its Mobile Interests) at the time of the exercise, as agreed to between the parties or determined by an investment bank jointly selected by the parties or selected by an arbitrator.

TCL Corp will remain the single largest shareholder of the Company and in no circumstance will Thomson receive in the exchange such number of Shares which is equal to or exceeding 30% of the issued share capital of the Company upon the Share Exchange.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued upon the exercise of the Exchange Option by Thomson.

2.4 *Mobile Spin-Off*

The Company will use commercial best efforts to complete and close all the transactions necessary for or incidental to the Mobile Spin-Off within 9 months of the Closing Date. However, the Company is not required to undertake the Mobile Spin-Off on unfavourable terms or market conditions that are not in the best interest of the Shareholders.

2.5 *Acquisition of Sales Interest*

At the time of negotiating the Combination Agreement, the Company was, in principle, required to contribute to the TTE Group the entire TV business of the TCL Corp Group, including all of TCL Corp's interests in the Wuxi and Inner Monogolia Assets and the Sales Company, which is currently owned by the Company and TCL Corp as to 51% and 49% respectively. However, it was subsequently decided not to transfer the Company's and TCL Corp's shareholdings in the Sales Company to TTE before Closing. The Company, in return, agreed to try and complete the acquisition of the Sales Interest before the closing of the Exchange Option for a cash consideration of €6.5 million (approximately HK$61.1 million), which is determined on the basis of the net asset value of the Sales Company as at 31 December 2003. Should any agreement for the acquisition of the Sales Company be entered into, the Company will make any necessary announcement and/or seek Shareholders' approval pursuant to the requirements of the Listing Rules. Upon completion of such acquisition, the Company will own all of the equity interests in the Sales Company.

2.6 *Payment by the Company*

As stipulated in the Combination Agreement, the Company will acquire and contribute the Wuxi and Inner Mongolia Assets at a cash consideration of HK$218.4 million in exchange for certain of its shareholding in TTE. These assets will be part of its contribution under the Combination Agreement in exchange for its 67% shareholding in TTE. In determining Thomson's stake in the Company upon the exercise of the Exchange Option, the value of the Company (excluding the value of the Mobile Interest) was negotiated without considering any cash payment by the Company for these acquisitions. The Company has therefore agreed to compensate Thomson as a Shareholder of the Company upon the exercise of the Exchange Option HK$61.1 million in cash for the change in the Company's valuation as a result of the cash paid for the acquisitions of the Wuxi and Inner Mongolia Assets. The compensation amount of HK$61.1 million has been determined on the basis of the cash payment to the TCL Corp Group for the Acquisition, taking into consideration Thomson's likely equity interest in the Company after the exercise of the Exchange Option, assuming the Mobile Spin-Off is completed. Such compensation shall be paid to Thomson at the closing of the Exchange Option.

2.7 *Conditions Precedent to closing of Share Exchange*

Closing of Share Exchange is subject to the conditions that:

(a) no injunction or order issued by any court of competent jurisdiction prohibiting the delivery of TTE Shares by Thomson in exchange for the Shares shall be in effect; and

(b) all approvals required for the Share Exchange shall have been obtained.

2.8 *Connected Transaction*

Prior to Closing, Thomson is not a connected person of the Company. After Closing, Thomson will hold 33% of TTE Shares in issue and will become a connected person of the Company by virtue of its shareholding in TTE. The exercise of the Exchange Option by Thomson will constitute a connected transaction of the Company under Rules 14A.68 and 14A.69 of the Listing Rules. As the Relevant Ratio is more than 25% but less than 75%, the exercise of the Exchange Option will also constitute a major transaction pursuant to Rule 14.08 of the Listing Rules. Shareholders' approval will be sought at the EGM for the approval of the grant and the exercise of the Exchange Option. Thomson and its associates (if at the time of EGM holding any Share) are required to abstain from voting on the resolutions for approving the Exchange Option Agreement.

3. DVD Option Agreement

3.1 *Parties*

(a)	Grantor and covenantor:	Thomson
(b)	Grantee:	TTE
(c)	Covenantor:	the Company

3.2 *Grant of DVD Option*

The Group and Thomson may at a later stage combine their respective DVD businesses into TTE. Accordingly, Thomson will grant to TTE an irrevocable option to acquire the Thomson DVD Business for no consideration, which can only be exercised in whole but not in part during the period commencing on the Closing Date and ending on 31 December 2004. Should TTE exercise the option to acquire the Thomson DVD Business, the Company may consider to inject into TTE its DVD business. The Company will make any necessary announcement and/or seek Shareholders' approval pursuant to the requirements of the Listing Rules if any agreement is entered into in respect of the injection of the Company's DVD business into the TTE Group.

3.3 *Contribution if DVD option not exercised*

Should TTE decide not to exercise the option, Thomson will offer to contribute to TTE such assets (in the form of current or non-current assets) with an aggregate fair market value of €20 million (about HK$188 million). Thomson and TTE shall negotiate in good faith to agree on the value of the assets. The shortfall amount shall be compensated by Thomson in the form of one or more of (a) cash, (b) assets that are relevant to and reasonably usable in TTE's operating business and/or (c) cancellation of certain number of TTE Shares issued to Thomson.

3.4 *Non-competition*

On and from the closing of the exercise of the DVD Option, the non-competition undertaking given by Thomson and the Company respectively to TTE under the Shareholders' Agreement in respect of the TV business will be deemed to apply to the DVD business, and the Company will procure TCL Corp to give the same undertaking to TTE.

3.5 *Connected Transaction*

Prior to Closing, Thomson is not a connected person of the Company. After Closing, Thomson will hold 33% of TTE Shares in issue and will become a connected person of the Company by virtue of its shareholding in TTE. The exercise of the DVD Option by TTE will constitute a connected transaction of the Company under Rules 14A.68 and 14A.70 of the Listing Rules. Shareholders' approval will be sought at the EGM for approval of the grant and the exercise of the DVD Option. Thomson and its associates (if at the time of EGM holding any Share) are required to abstain from voting on the resolutions for approving the DVD Option Agreement. As the Relevant Ratios in respect of the transaction under the agreement are more than 5% but less than 25%, the exercise of the DVD Option by the Company will also constitute a discloseable transaction of the Company under Rule 14.08 of the Listing Rules.

4. Restructuring Cost Reimbursement Agreement

4.1 *Parties*

(a) TTE

(b) Thomson

4.2 *Restructuring plan of TTE*

Pursuant to the Combination Agreement, Thomson has agreed to reimburse the TTE Group up to €33 million (about HK$310.2 million) of restructuring costs incurred within the first two years of the Closing Date in relation to the Thomson TV Business contributed to TTE, subject to certain adjustment as may be agreed by the parties.

The restructuring costs that are reimbursable must be part of a restructuring plan approved by the TTE Board. If the aggregate of such costs in any three months period is less than €1 million (about HK$9.4 million), approval of TTE board is not required.

5. Patent Royalty Agreement

5.1 *Parties*

(a) Licensor: TLSA

(b) Licensee: TTE

5.2 *Establishment of a paid-up royalty account*

In return for the assets and cash contributed by Thomson pursuant to the Combination Agreement, TTE shall upon signing of the Patent Royalty Agreement establish a €70 million (about HK$658 million) paid-up royalty account used for payment of royalties payable to Thomson and its affiliates under certain Operation Agreements. This amount may be subject to certain deductions, to be agreed between Thomson and the Company.

Following the Closing Date, any royalties payable under the patent license agreement(s) between TLSA or its affiliates and TTE or its affiliates will be paid out of the paid-up royalty account. After the 4th anniversary of the agreement, TTE may elect to apply the remaining balance in the paid-up royalty account to pay any other amounts that may be due to TLSA or its affiliates under certain other Operation Agreements.

5.3 *Term and termination*

Upon signing the agreement shall remain effective until the later of (a) the termination of the patent license agreement(s) between TLSA and TTE and (b) when the balance of the paid-up royalty account has been used up.

6. Call Option Agreement

6.1 *Parties*

(a) Grantor: Thomson

(b) Grantee: the Company

6.2 *Grant of option to purchase Thomson's shares*

Thomson will grant to the Company an option to purchase from Thomson an aggregate of no less than 2.5 million shares (of nominal value of €3.75 (about HK$35.25) each) of Thomson at the exercise price of €18.12 (about HK$170.33) per share. The option is exercisable (in whole or not in more than two parts) during the period from the third months after the Closing Date (the "Exercise Date") and ending the 2nd anniversary from the Exercise Date. The shares of Thomson to be purchased by the Company upon exercise of the Call Option will be new shares or treasury shares of Thomson, however the type of shares to be purchased is not yet decided.

6.3 *Connected Transaction*

As no consideration is involved for the grant of the Call Option, the grant of the Call Option by Thomson to the Company is exempted from the reporting, announcement and shareholders approval requirements under Chapter 14 of the Listing Rules by reason that the value of the transaction in respect of the grant of the Call Option is below the Company's discloseable translation threshold. After Closing, Thomson will hold 33% of TTE Shares in issue and will become a connected person of the Company by virtue of its shareholding in TTE. The exercise of the Call Option by the Company will therefore constitute a connected transaction of the Company under Rules 14A.68 and 14A.70 of the Listing Rules. Shareholders' approval will be sought at the EGM for approval of the grant and the exercise of the Call Option. Thomson and its associates (if at the time of EGM holding any Share) are required to abstain from voting on the resolutions for approving the Call Option Agreement. As the Relevant Ratios in respect of the transaction under the agreement are more than 5% but less than 25%, the exercise of the Call Option by the Company will also constitute a discloseable transaction of the Company under Rule 14.08 of the Listing Rules.

OPERATION AGREEMENTS

With a view to achieving operational efficiency and utilizing the competitive advantages of Thomson Group in North America and Europe and the TCL Corp Group in PRC, TTE will enter into a number of Operation Agreements with the Thomson Group and the TCL Corp Group. The Operation Agreements to be entered into between TTE and the Thomson Group or the TCL Corp Group form part of the Transaction Documents, the execution of which on or before the Closing Date is a condition to the Combination Agreement.

PROSPECTIVE CONTINUING CONNECTED TRANSACTIONS

Thomson is currently an independent third party not connected with any of the Directors, chief executives or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates. After Closing, Thomson will hold 33% of TTE Shares in issue and will become a connected person of the Company by virtue of its shareholding in TTE. TCL Corp is the controlling shareholder of the Company holding approximately 54.2% of the existing issued share capital of the Company. Accordingly, the transactions contemplated under the Operation Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. These agreements have been finalized on the basis of arm's length negotiations between the parties.

Depending on the size of the transactions, it is expected that some are fully exempt from the reporting, announcement and independent shareholders' approval requirements but the majority are subject to disclosure obligations and/or Independent Shareholders' approval. Based on the counter parties, the Operation Agreements can be broadly divided into Thomson continuing connected transactions and TCL Corp continuing connected transactions.

To give effect to the key principle of supporting the growth and sustainability of TTE's business, Thomson and TCL Corp have agreed that certain fair margins charged to TTE for services to be provided by them will be waived during the initial phase of TTE's operation and linked to the performance of TTE's business thereafter.

(A) THOMSON CONTINUING CONNECTED TRANSACTIONS

TTE will enter into a number of operation agreements with the Thomson Group to leverage its global distribution infrastructure and strong intellectual properties and other assets for the growth of TTE's business. The terms of the agreements are some of the factors considered by the parties in determining Thomson's contribution to TTE and its share of equity stake in TTE. The terms of the agreements to be entered into between TTE and the Thomson Group are negotiated on normal commercial terms on an arm's length basis. It should be noted that Thomson is an independent third party not connected with the directors, chief executives or substantial shareholders of the Company and the continuing connected transactions occur only from Closing when Thomson will become a controlling shareholder of a subsidiary of the Company.

TTE is a newly incorporated company and the merger with Thomson will only become effective on Closing of the Combination Agreement, no historical transactions in respect of the continuing connected transactions mentioned in this section had been entered into with Thomson Group. As all continuing connected transactions to be entered into with Thomson will be new transactions, no historical figures for the amounts to be involved under the said transactions can be provided.

(I) Exempt Thomson Continuing Connected Transactions

The transactions in this category are exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules due to the amount involved will be de minimis as it will be less than 0.1% of the Relevant Ratio. They consist of agreements between the Thomson Group and TTE relating to patent arrangements, patent services, patent sub-licensing services, information technology shared services and administrative shared services which have been negotiated on an arm's length basis and constitute ordinary course agreements of TTE. Should the amounts to be involved in any transaction under this category exceed 0.1% of the Relevant Ratio, the Company will comply with the disclosure obligation or Shareholders' approval requirement under Chapter 14A of the Listing Rules.

(II) Partially Exempt Thomson Continuing Connected Transactions (exempt from independent shareholders' approval requirements)

The transactions contemplated under the category of partially exempt continuing connected transaction are expected to be of an amount on an annual basis of less than 2.5% of the Relevant Ratio and therefore falls under Rule 14A.34. Accordingly they will only be subject to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 but exempted from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

1. Thomson Styling Services Agreement

1.1 *Parties*

(a) Thomson

(b) TTE

1.2 *Provision of styling services by Thomson*

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 the TTE Group bearing or marketed under the "Thomson" or "RCA" trademarks and a non-exclusive provider in respect of other TV products as mutually agreed upon by the Parties from time to time.

1.3 *Service fees*

TTE shall pay to Thomson on a monthly basis a service fee for the provision of the styling services. The service fees payable will be 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.

1.4 *Term and termination*

The agreement shall be for a term of three years. Thomson may terminate the agreement by giving TTE a six-month advance notice. TTE may terminate the agreement by giving Thomson a six-month advance notice if Thomson has failed to perform its styling obligations to a standard comparable to standard market practice.

1.5 *Determination of the Caps*

Based on the actual costs of Thomson in providing the styling services, the Directors expect that the aggregate amount of styling services fees payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$27 million, HK$48 million and HK$53 million respectively.

2. Thomson Strategic Sourcing Agreement

2.1 *Parties*

(a) Thomson

(b) TTE

2.2 The parties will jointly establish a sourcing steering committee (a) to co-ordinate their sourcing activities where synergies exist between the parties, (b) to maintain and improve sourcing efficiencies resulting from the combined volume and global presence and (c) to share best sourcing practices.

2.3 Following Closing, TTE will utilize the following information systems at the ex-Thomson sites until 31 December 2005 to facilitate its sourcing activities:

(a) Thomson TOCOM System: a proprietary purchased components sourcing data management system owned by Thomson;

(b) Thomson EasySource System: a purchased services data management and procurement system used by Thomson; and

(c) NPP system: a system used by an ex-Thomson site for non-production purchase via a third party contractor.

After 31 December 2005, TTE will evaluate whether the use of the foregoing information systems should be continued. In consideration for the use of the above-mentioned information systems, TTE agrees to pay Thomson an annual fee of €2.85 million (above HK$26.79 million) which figure is determined by the parties with reference to the costs incurred by Thomson in the year ended 31 December 2003 in connection with developing and maintaining the three information systems discussed above.

2.4 Each of the parties will make its own procurement decision and enter into its own agreements with the relevant vendors for supply of the required components and services.

2.5 *Term and termination*

The agreement shall continue until the earlier of 31 December 2005 and the date of termination of the agreement by either party upon occurrence of a bankruptcy event or material breach provided that the agreement may be extended by the parties by mutual agreement.

2.6 *Determination of the Caps*

According to the terms of the agreement, the annual fee payable to Thomson under the agreement is fixed at €2.85 million (approximately HK$26.8 million), subject to adjustment. Therefore, the Directors expect that the aggregate amount of services fees payable under the agreement for each of the two financial years ending 31 December 2005 will not exceed HK$13.4 million and HK$27 million respectively.

(III) Non-exempt Thomson Continuing Connected Transactions

The transactions contemplated under the category of non-exempt continuing connected transactions are expected to be over 2.5% of the Relevant Ratio on an annual basis. Accordingly, they will be subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Most of the agreements constituting the Relevant Continuing Connected Transactions are for a term exceeding three years. They are part of a whole package of arrangement among the relevant parties. The Directors consider that any restriction to limit the term of the agreements to three years will be harmful to the interest of TTE and accordingly the interest of the Company and the Shareholders as a whole because the TTE Group will not be able to fully extract and utilise what Thomson and TCL Corp can offer for the future development of TTE. In the letter from Commerzbank, Commerzbank will explain why a term of a period of longer than three years for each of those agreements is required and it will confirm that it is business practice for the Company to enter into contracts of these types to be of such duration.

3. Patent License Agreement — Color Television Receivers

3.1 *Parties*

(a) TLSA

(b) TTE

3.2 *Grant of license*

TLSA will grant to the TTE Group 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 term of the agreement to make, lease and sell analog Colour Television Receivers.

3.3 *Royalty calculation*

TTE shall pay royalty to TLSA, on a quarterly basis, in respect of all units of the Colour Television Receivers with the rate ranges that are consistent with rates offered by Thomson to other television manufacturers and vary according to the country in which the Colour Television Receivers are manufactured.

3.4 *Term*

The agreement shall be for a term of five years and shall be automatically renewed for further five years terms unless and until terminated by either party by giving 6 months' prior written notice before the expiration of any five years term.

3.5 *Reason for term in excess of three years*

As Thomson Group is one of the world's largest technology patent holders in analogue TV technology, with a portfolio of over 40,000 patents, the Directors are of the view that a term of five years is in the interests of TTE, the Company and the Shareholders.

This agreement is based on the standard agreement entered into between TLSA and any licensee around the world. The Directors believe that the terms of this agreement are consistent with market practice in respect of patent licensing agreements.

3.6 *Determination of the Caps*

The Directors expect that the aggregate amount of royalties payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$136 million, HK$284 million and HK$330 million respectively.

The monetary limits for the agreement are determined based on the product of predetermined royalty rates applicable in different countries and the internal projection of the number of televisions manufactured by TTE over the next few years. The projection reflects an increase in the number of televisions to be manufactured and sold by TTE based on the aggregate number of televisions sold by Thomson TV Business and the Company of approximately 18.5 million in the fiscal year 2003, taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range, (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following the Closing.

4. Receivables Purchase and Sales Agreement

4.1 *Parties*

(a) TTE

(b) Thomson

4.2 As no working capital associated with the Thomson TV Business will be contributed to TTE, pursuant to the Combination Agreement, to ensure the smooth running of TTE such that it will have no difficulty in funding its initial operations, Thomson has agreed to enter into this agreement to purchase, on a rolling basis, up to a maximum outstanding amount of €100 million (about HK$940 million) of the trade account receivables of TTE and its relevant subsidiaries and collect such receivables on behalf of TTE and its relevant subsidiaries. Such outstanding amount shall, from the 1st anniversary of Closing, be reduced by $\frac{1}{12}$ at the end of each month so that it shall, at the 2nd anniversary of Closing, be zero, and the agreement shall then be automatically terminated.

4.3 *Sale and purchase of TTE's trade account receivables*

Thomson shall not be obliged to purchase any receivables arising out of the sale, distribution and other disposition of TTE's TV products in countries other than U.S. unless Thomson shall have received appropriate opinions of counsel relating to the validity, perfection and priority of such purchase under the applicable laws in such other countries.

4.4 The trade account receivables shall be purchased by Thomson at a discount of the book value of such receivables and the relevant discount rate shall be determined with reference to the average gross interest cost incurred in relation to total financial debt as shown in Thomson's latest published annual or semi-annual financial statements for its principal amount of indebtedness outstanding for the most recent 6-month period covered by such financial statements.

4.5 *Administration*

Thomson shall collect the receivables in accordance with the credit and collection policies and practices of TTE in effect on the Closing Date, as may be modified thereafter with Thomson's prior written approval (not to be unreasonably withheld) during the period from Closing to the 2nd anniversary thereof. For the trade account receivables that cannot be collected by Thomson within 45 days after their due date for whatever reason, TTE shall provide Thomson credits ("Credits") of equivalent amount in exchange for Thomson's transferring back to TTE such non-collectable trade account receivables so that Thomson is not required to bear any default or non-collection risks of the trade account receivables of TTE. Thomson may use the Credits to set off its payment obligation in purchasing additional receivables (or any part thereof) from TTE Group under the agreement.

4.6 *Determination of the Caps*

Thomson shall, for a period of two years upon Closing, purchase trade account receivables from TTE, on a rolling basis, up to a maximum outstanding amount of €100 million (equivalent to approximately HK$940 million) to fund its working capital. Such relevant amount shall, from the 1st anniversary of the Closing, be reduced by 1/12 at the end of each month so that it shall, at the 2nd anniversary of the Closing, be zero. On the basis that Closing shall take place in June or July 2004, the Directors expect that the aggregate amount of receivables to be outstanding under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$940 million, HK$940 million and HK$470 million respectively.

5. Thomson Trademark License Agreement

5.1 *Parties*

(a) Licensor: Thomson

(b) Licensee: TTE

5.2 *Grant of license*

Thomson shall grant to TTE and certain of its subsidiaries for a 20-year term a non-sub-licensable and non-transferable license to use certain of its registered trademarks including "Thomson", "RCA", "Scenium", "LiFE" ("Thomson A Brands") and "SABA" ("Thomson B Brand") for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions.

The grant of license under the agreement shall be subject to certain pre-existing trademark license contracts or arrangements of Thomson. Any renewals (other than the automatic renewals and other renewals that do not require the consent of Thomson or are not otherwise within its control) or amendments of such pre-existing contracts or arrangements shall be subject to the written consent of TTE.

5.3 *Royalties*

No royalties shall be payable by TTE to Thomson prior to the 2nd anniversary of the Closing Date. Thereafter, the royalties payable shall be linked with the performance of the TTE Group and calculated by reference to the net sales of TV products and the applicable royalty rates. The applicable royalty rates will be 0.5%, 1% or 2% for Thomson A Brands and 0.25%, 0.5% or 1% for Thomson B Brand, depending on whether the consolidated EBIT margin of the TTE Group for the applicable year falls under 3%, between 3% and 6%, or over 6%, respectively.

5.4 *Reimbursement of branding advertising costs*

Thomson shall conduct brand promotion and marketing of the licensed trademarks in the ordinary course of business. TTE shall reimburse Thomson for the general brand advertising costs incurred by Thomson during the term of the agreement at a minimum of 0.5% of the aggregate annual net sales of TV products using the Thomson A Brands in the relevant territories for the previous fiscal year.

Thomson shall reinvest the 0.5% trademark license fees payable by the TTE Group to Thomson in respect of Thomson A Brands products for the period from the secondary anniversary to the fifth anniversary after Closing as additional general brand awareness advertising costs for the Thomson A Brands.

Prior to commencing any brand promotion or marketing campaign which has not been pre-approved in any semester budget proposal and would incur costs over €100,000 (about HK$940,000), Thomson shall consult with TTE.

5.5 *Costs and expenses*

TTE shall be solely responsible for the expenses in the performance of quality control and other trademark use monitoring activities. TTE shall reimburse Thomson 50% of its out-of-pocket expenses and fees paid to government authorities which is incurred between the date of the agreement and the 5th anniversary thereof in:

(i) obtaining and maintaining the trademarks in the respect of the TV products in the relevant territory;

(ii) recording the agreement; and

(iii) obtaining entry of TTE as a registered or authorized user in countries where it is legally required and requested by TTE.

5.6 *Term and termination*

The agreement shall be for a term of 20 years unless earlier terminated in accordance with the terms of the agreement.

Commencing from 1 January 2005, if TTE fails to meet in any calendar year the minimum sales target in an exclusive territory as annexed to the agreement, Thomson may give a written notice of underperformance to TTE. If TTE fails to reasonably demonstrate to Thomson within 90 days that TTE will meet or actually fails to meet the minimum sales target for the current year, Thomson may terminate the license with respect to such exclusive territory by one year's prior written notice to TTE.

5.7 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that for each of the three financial years ending 31 December 2006 (i) the aggregate royalty payable under the agreement will not exceed HK$Nil, HK$Nil and HK$206 million respectively and (ii) the aggregate amount of branding fee reimbursement will not exceed HK$106 million, HK$194 million and HK$213 million respectively.

The monetary limits for the agreement are determined based on (i) an increase in the projected sales in the business of the TTE Group over the next few years; (ii) the highest applicable royalty rates (i.e. 2% for Thomson A Brands and 1% for Thomson B Brand TV products) in case the EBIT margin of the TTE Group will exceed the maximum 6%; (iii) no royalty payment shall be payable prior to the 2nd anniversary of the Closing and (iv) internal budgeting on general advertising costs. The increase in the projected sales is based on the expected operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following the Closing.

5.8 *Reason for term in excess of three years*

One of the main objectives in entering into the joint venture is to leverage on the "Thomson", "RCA" and other brands to be licensed to TTE by Thomson to expand into overseas markets in an efficient and effective manner. A license to use these brands will be a key asset of TTE. The right of the Group to distribute products bearing the "Thomson", "RCA" or other brands held by Thomson is essential for the development of TTE's business in Europe, the U.S. and elsewhere in the world.

The Directors believe that it is in the interest of the Company for TTE to have stable entitlement over an extended period to use the brands licensed under this agreement. By securing a 20-year trademark license agreement, the Directors believe that the duration of the contract is long enough to enable the Group to continue the distribution of such branded products without unnecessary interruption. Otherwise, a significant amount of additional investment will be required to develop new brands for those markets.

Since strong trademarks are crucial to the success of a consumer electronics manufacturer and typically require substantial investments in development and promotion over a period of time, licensees generally desire the terms of trademark licenses to be as long as the licensor would permit.

6. North America Sales and Marketing Agency Agreement

6.1 *Parties*

(a) Principal: TTE

(b) Agent: Thomson Inc., a company incorporated under the laws of Delaware and a wholly-owned subsidiary of Thomson

6.2 *Appointment of agent and scope of services*

TTE shall 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 (the "Scope of Services").

6.3 *Exclusivity*

Save and except certain limited existing TV related business of Thomson Inc. agreed by the parties, none of Thomson Inc. and its affiliates may directly or indirectly engage in any competing business activities within the Scope of Services. In addition, TTE shall not engage in, or contract a third party to engage in, any business activities within the Scope of Services, except that TTE may sell and market (i) products as an OEM manufacturer for other customers and (ii) private label products provided that such business activities do not have an adverse impact on the sales of "Thomson" or "RCA" branded TV products in the USA, Canada or Mexico.

6.4 *Expenses and commissions*

Cost

TTE shall pay certain budgeted, reimbursable costs and expenses incurred by Thomson Inc. for the provision of the services under the agreement.

Base commission

In addition, TTE shall pay Thomson Inc. a percentage of the projected costs and expenses other than those reimbursed directly by TTE to be incurred by Thomson Inc. as base commission and the relevant percentage is determined as follows:

(i) For the period prior to the 5th anniversary of the date of the agreement: 100% x a ratio of the actual net sales achieved to the sales target

(ii) For the period from the 5th anniversary of the date of the agreement onward: 105% x a ratio of the actual net sales achieved to the sales target

Margin incentive commission

If TTE can achieve an overall gross margin of the products sold in the USA, Canada and Mexico above the overall gross margin of the products sold worldwide, TTE shall pay Thomson Inc. a percentage of the projected costs and expenses to be incurred by Thomson Inc. as margin incentive commission. The relevant percentage will be 3% times a ratio of the actual net sales achieved to the sales target. However, no margin incentive commission shall be payable prior to the second anniversary of the date of the agreement.

Performance incentive commission

TTE may at its sole discretion offer Thomson Inc. a performance incentive commission at a commission rate determined by TTE.

6.5 *Term and termination*

(a) The agreement shall continue until the earlier of

(A) the latest of

(i) five years from the date of the agreement;

(ii) such date as may be agreed by the parties in writing upon renewal of the agreement; and

(iii) the date on which Thomson Group holds in aggregate less than 50% of its initial holding in TTE or the Company (upon the exercise of the Exchange Option).

(B) 20 years from the date of the agreement

(b) Notwithstanding (a) above, the agreement may be terminated by consent of both parties or by either party immediately if the other party ceases to carry on its business or undergoes a change in control that has a material adverse effect on the interest of that party.

(c) Either party shall be entitled to serve on the other party a termination notice if the other party is materially underperformed with reference to a semi-annual sales plan or in material breach or default of the agreement. The termination shall be effective one year after the receipt by the other party of the termination notice.

6.6 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate commission payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$805 million, HK$1,352 million and HK$1,418 million respectively.

The monetary limits for the agreement are determined based on the Company's (i) internal budgeting on aggregate regional sales and marketing costs of Thomson TVs; (ii) internal projection on the aggregate regional sales target of Thomson TV products in North America; (iii) projected sales for each forthcoming year will exceed pre-determined sales target and (iv) the payment of a 3% margin incentive commission after the 2nd anniversary of the Closing.

6.7 *Reason for term in excess of three years*

As the Thomson TV products have historically been distributed through the sales team and distribution network of Thomson and that the Combination Agreement does not entail the transfer of the Thomson's distribution networks to TTE, it is crucial that the Group will be able to continue to benefit from the distribution networks and customer relationships of Thomson.

The Group can leverage on the well-developed sales and agency network of Thomson in North America over an undisturbed period of time without the need for the Company to incur significant expenditures in establishing its own distribution network to cover the whole of North America, a market in which the Group has no significant experience in distributing branded products. Thomson's sales network in North America has an extensive coverage reaching approximately 220 distributors and over 10,000 retail outlets. It has well-established relationships with most of the nationwide distributors (such as, Wal-Mart, Best Buy, Target, etc.) as well as expertise in brand management, merchandising, market intelligence, sales and logistics management of TV end-products in this market. The ability for TTE to gain immediate access to North America via the Thomson Group's existing distribution network will provide immediate commercial benefits to the Group.

The Directors believe that limiting the term of this agreement to three years will prevent TTE from achieving the efficiencies and other benefits from the developed network of Thomson and would be detrimental to the interests of TTE, the Company and the Shareholders.

7. Europe, Middle East and Africa Sales and Marketing Agency Agreement

7.1 *Parties*

(a) Principal: TTE

(b) Agent: Thomson

7.2 *Appointment of agent and scope of services*

TTE shall 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) (the "Product Services") with respect to all TV end-products of TTE in 29 countries in Europe (including France, Germany, Italy and England); (ii) an exclusive sales and marketing agent to provide the 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 (including Algeria, Morocco, Tunisia, Poland, Turkey and Russia); and (iii) a non-exclusive sales and marketing agent to provide the Product Services with respect to TV end-products in other 24 countries (including Australia, Saudi Arabia, Egypt and Kuwait) as agreed between the parties after Closing.

7.3 Save for the counter party for the agreement being Thomson instead of Thomson Inc. and the geographical regions covered under the agreement are Europe, Middle East and Africa instead of the USA, Canada and Mexico, the major terms in relation to exclusivity, expenses and commissions and term and termination are same as those under the North America Sales and Marketing Agency Agreement. Please refer to the relevant paragraphs under the heading "North America Sales and Marketing Agency Agreement".

7.4 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate commission payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$798 million, HK$1,320 million and HK$1,409 million respectively.

The monetary limits for the agreement are determined based on the Company's (i) internal budgeting on the aggregate regional sales and marketing costs of Thomson TVs; (ii) internal projection on the aggregate regional sales target of Thomson TV products in the Europe, Middle East and Africa; (iii) projected sales for each forthcoming years will exceed pre-determined sales target and (iv) the payment of a 3% margin incentive commission after the 2nd anniversary of the Closing.

7.5 *Reason for term in excess of three years*

Save and except that the distribution network concerned is related to Europe, Middle East and Africa regions, the reasons in support of a term longer than three years for this agreement is similar to those for the North America Sales and Marketing Agency Agreement.

The markets covered by this agreement are more fragmented than the North American market and may prove even more costly to TTE to establish a new distribution network.

8. Agreement relating to Thomson Television Angers

8.1 *Parties*

(a) Thomson

(b) TTE

8.2 *Background*

Thomson's Angers Factory will not be part of the Thomson TV Business to be contributed to TTE. As Thomson has agreed that it will not engage in any design and manufacturing of TVs that compete with TTE, the parties have agreed to make arrangements for reorganising the operations of the Angers Factory, provided that TTE shall not make a loss or a profit on sales of products produced at the Angers Factory. It is anticipated that in the process of reorganisation, TTE shall purchase (a) certain fixed assets (mainly equipment) as listed in the agreement (the "Subject Assets") for a nominal consideration of €1 (about HK$9.4), and (b) the raw materials for and work-in-progress generated by the Subject Assets on the same basis as the supply of components as set out in the Thomson Preferred Supplier Agreement (details as set out below).

Should the aggregate book value of the Subject Assets to be transferred to TTE from the Angers Factory be less than €8 million (about HK$75.2 million), Thomson shall transfer other assets of the Angers Factory or cash to TTE to make up the shortfall. In other words, TTE can in any event receive assets and/or cash of total value of €8 million (about HK$75.2 million) in return for the nominal consideration of €1 (about HK$9.4).

8.3 *Engaging the production capacity of Thomson's Angers Factory*

TTE shall engage the production capacity of Thomson at its Angers Factory for production of high-end TV products and their sub-assemblies and modules for sale primarily in Europe. TTE will purchase from the Angers Factory certain models exclusively for sale primarily in Europe.

TTE shall purchase TV products from the Angers Factory at a price determined with reference to the net sales price of such products to customers by TTE and TTE's aggregate general and administrative expenses, provided that TTE shall not suffer any loss or make any profit from such sales.

8.4 *Acquisition of new assets*

Thomson may acquire new assets (the "New Assets") up to €8 million (about HK$75.2 million) for TV production in consultation with TTE to continue the production at the Angers Factory to meet the products ordered by TTE. To the extent the New Assets shall no longer be used by the Angers Factory for TV production prior to the completion of the intended reorganization, TTE shall purchase from Thomson the New Assets for a nominal consideration of €1 (about HK$9.4) and the raw materials for and work-in-progress generated by the New Assets on the same basis as the supply of components as set out in the Thomson Preferred Supplier Agreement. Should the aggregate fair market value of the New Assets to be transferred to TTE from the Angers Factory be less than €8 million (about HK$75.2 million), Thomson shall transfer cash to TTE to make up the shortfall.

8.5 *Profit sharing*

Should the Angers Factory make any profit in any year during the term of the agreement after taking into account any restructuring costs, Thomson shall share such profit with TTE by an equitable methodology to be agreed by the parties.

8.6 *Term and termination*

The agreement shall continue in force until the earliest of:

(a) full implementation of the intended reorganization;

(b) termination by either party due to material breach by or liquidation of the other party; and

(c) five years from the date of the agreement,

provided that the term of the agreement may be extended by the parties by mutual agreement.

8.7 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group in the European regions for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate amounts payable for the purchase from the Angers Factory under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$1,432 million, HK$2,863 million and HK$2,863 million respectively.

The monetary limits for the agreement are determined based on (i) projected sales of Angers Factory (based on the historical sales of approximately €213 million (approximately HK$2,002 million) for year 2003); and (ii) the reorganisation of the Angers Factory's TV operation.

8.8 *Reason for term in excess of three years*

The Angers Factory is a part of the TV business of Thomson, but is not being acquired by TTE because it has significantly higher operating cost than the rest of Thomson's TV business in Europe. Thomson, however, cannot use the TV manufacturing facilities at Angers for its own benefit since it is bound by a non-competition undertaking under which it is prohibited from competing with TTE in TV design and manufacturing. As a result, Thomson has to gradually reorganise the Angers Factory. Under this agreement, TTE will utilize Angers as a subcontractor 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 operations at that plant.

The five-year subcontracting arrangement is an integral part of the Combination Agreement negotiated between the Company and Thomson, on the basis of which Thomson will be responsible for any restructuring associated with the Angers Factory.

9. Thomson Preferred Supplier Agreement

9.1 *Parties*

(a) Purchaser: TTE

(b) Supplier: Thomson

9.2 *Appointment of preferred supplier*

TTE shall appoint Thomson as one of the only two preferred suppliers for certain components (being CRTs and any other component or integrated circuits used or to be used in connection with the development, production or manufacture of TV end-products by TTE which are produced and designed by the Thomson Group or incorporates a material extent of the intellectual property rights of the Thomson Group) (the "Components") and shall give priority to Thomson for the supply of the Components.

Provided that (i) TTE has certified such Components regarding their quality, specifications, terms of supply and other attributes of supply and (ii) the Components are of comparable product quality, specifications and reliability as offered by other suppliers and are offered at terms taken as a whole as competitive as those offered by other suppliers, TTE shall use reasonable efforts to make Thomson the most significant supplier in terms of volume for the Components.

9.3 *Designation as preferred customer*

Thomson shall designate TTE as its preferred customer. In case of production capacity constraint on Thomson's part, Thomson shall grant priority to TTE for orders placed by TTE for the Components over orders of other customers of Thomson provided such grant of priority will not cause Thomson to breach its existing obligations with other customers.

9.4 *Term and termination*

The agreement shall become effective from the date of the agreement and shall continue until the earliest of:

(a) the later of (i) three years from the date of the agreement; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; and (iii) the date on which the Thomson Group holds less than 50% of the initial 33% of the total issued share capital of TTE or should the Exchange Option be exercised, the initial percentage of the total issued share capital of the Company issued to Thomson upon such exercise;

(b) termination by either party due to the other party's liquidation or material breach;

(c) 15 years from the date of agreement; and

(d) the date on which the Thomson Group holds less than 13.25% of the total issued share capital of TTE or should the Exchange Option be exercised, certain minimum percentage of the total issued share capital of the Company.

9.5 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate amounts payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$5,625 million, HK$11,572 million and HK$13,429 million respectively.

The monetary limits for the agreement are determined based on (i) the budget requirement of the TTE Group in terms of expenditure on raw materials, in particular CRTs; and (ii) projected increase in the sales of TV products by the TTE Group, taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range, (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following the Closing.

9.6 *Reason for term in excess of three years*

Given that the Group is currently sourcing CRTs and other components from Thomson, it is in the interest of the Company if TTE is able to secure a stable supply of components from Thomson at competitive market prices for a period longer than three years.

The supply of the Components from Thomson is subject to the scrutiny of TTE in that only Components which quality, specifications and terms of supply and other attributes of supply have been certified by TTE are eligible for supply to TTE. Further, the Components must be of comparable product quality, specifications and reliability as offered by other suppliers and offered at terms taken as a whole as competitive as those offered by other suppliers. The agreement also grants TTE the status of a preferred customer of Thomson.

(B) TCL CORP CONTINUING CONNECTED TRANSACTIONS

TTE will enter into the following agreements with the TCL Corp Group to leverage its infrastructure and assets for the growth of its business. These agreements have been finalized on the basis of arm's length negotiations between the parties. Although the Company has existing continuing connected transactions with TCL Corp concerning the subject matter to be involved in the non-exempt TCL continuing connected transactions, the scope to be involved under the new transactions to be entered into by TTE is not the same, accordingly any comparison of the historical figures would not be appropriate.

(I) Exempt TCL Corp Continuing Connected Transactions

1. *Company TCL Trademark License Agreement*

1.1 *Parties*

(a) TCL Corp

(b) the Company

1.2 *Background*

The entering into of the TCL Trademark License Agreement (as described below) gives rise to the need to introduce substantial amendments to the existing trademark license agreement ("Existing Trademark Agreement") entered into by TCL Corp and the Company on 15 November 1999. Therefore, conditional upon the effectiveness of the TCL Trademark License Agreement, the Company will terminate the Existing Trademark Agreement and enter into a new trademark license agreement with TCL Corp to cover products of the Group other than those of the TTE Group.

1.3 *Nature of the agreement*

The Group (excluding the TTE Group) will be granted free of charge the sole and exclusive right to use certain trademarks of TCL Corp worldwide in respect of audio-visual products, multi-media products and internet related products (including but not limited to DVD players, desktop and notebook computers, computer accessories, set-top boxes) developed or formulated or manufactured or sold or dealt with by the Group but excluding parts, components or kits that are used for the manufacture of any of the said products and products covered under the TCL Trademark License Agreement. The expiry date of this Agreement will be same as that under the Existing Trademark Agreement (i.e. 15 November 2049).

As the right to use the TCL trademarks by the Group (excluding the TTE Group) under the agreement is free of charge, the transaction under the agreement is exempt from the reporting, announcement and shareholders approval requirements under Chapter 14A of the Listing Rules by reason that its value is de minimis.

(II) Non-exempt TCL Corp Continuing Connected Transactions

2. *TCL Trademark License Agreement*

2.1 *Parties*

(a) Licensor: TCL Corp

(b) Licensee: TTE

2.2 *Grant of license*

TCL Corp shall grant to TTE Group for a 20-year term an exclusive (subject to certain limited exceptions which related to existing obligation or business of TCL Corp) non-sublicensable and non-transferable license to use certain of its registered trademarks for the manufacture and sale of TV products including: (i) "TCL" in Asia-Pacific ("TCL A Brand"); and (ii) "TCL" in rest of the world outside Asia-Pacific; and "Rowa" in the PRC (collectively "TCL B Brands").

2.3 *Royalty*

No royalty shall be payable by TTE to TCL Corp prior to the 2nd anniversary of the Closing Date. Thereafter, the royalties payable shall be linked with the performance of the TTE Group and calculated by reference to the net sales of TV products and the applicable royalty rates. If any royalty is payable, the applicable royalty rates for TCL A Brand will be (i) 0.5% if the EBIT percentage is equal to or greater than 3% but less than 6%, (ii) 1.5% if the EBIT Percentage is over 6%. The applicable royalty rates for TCL B Brands will be (i) 0.25% if the EBIT percentage is equal to or greater than 3% but less than 6%, (ii) 0.75% if the EBIT percentage is over 6%.

2.4 *Reimbursement of branding advertising costs*

TCL Corp shall conduct brand promotion and marketing of the licensed trademarks in the ordinary course of business. TTE shall reimburse TCL Corp for the general brand advertising costs incurred by TCL Corp during the term of the agreement at a minimum of 0.5% of the aggregate annual net sales of TV products using the TCL A Brand of TCL Corp in the relevant territories for the previous fiscal year.

Prior to commencing any brand promotion or marketing campaign which has not been pre-approved in any semester budget proposal and would incur costs over €100,000 (about HK$940,000), TCL Corp shall consult with TTE.

2.5 *Costs and expenses*

TTE shall be solely responsible for the expenses in the performance of quality control and other trademark use monitoring activities. TTE shall reimburse TCL Corp 50% of its out-of-pocket expenses and fees paid to government authorities which is incurred between the date of the agreement and the 5th anniversary thereof in:

(i) obtaining and maintaining the trademarks in respect of the TV products in the relevant territory;

(ii) recording the agreement; and

(iii) obtaining entry of TTE as a registered or authorized user in countries where it is legally required and requested by TTE.

2.6 *Term and termination*

The agreement shall be for a term of 20 years unless earlier terminated in accordance with the terms of the agreement.

2.7 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that (i) the aggregate royalty payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$Nil, HK$Nil and HK$147 million respectively and (ii) the aggregate amount of branding fee reimbursement will not exceed HK$56 million, HK$121 million and HK$138 million respectively.

The monetary limits for the agreement are determined based on (i) an increase in the projected sales of the business of its TCL A Brand and TCL B Brands TV products of the TTE Group over the next few years; (ii) the highest applicable royalty rates (i.e. 1.5% for TCL A Brand and 0.75% for TCL B Brands TV products) in case the EBIT margin will exceed the maximum 6% every year; (iii) no royalty payment shall be payable prior to the 2nd anniversary of the Closing and (iv) internal budgeting on general brand advertising costs. The increase in the projected sales is based on the expected operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing.

2.8 *Reason for term in excess of three years*

According to a recent survey by Beijing Famous-Brand Evaluation Co. Ltd., the "TCL" brand was the sixth most valuable brand name in China in 2003. The "TCL" brand has a strong presence for audio, video, household appliance and mobile handset in Asia-Pacific, in particular the PRC.

The "TCL" brand is among the most widely recognized in China and represents a sign of trust in consumer electronics products in the minds of consumers in the PRC. The Directors consider that the right for TTE to use the "TCL" trademark for its business is one of the key assets of the joint venture.

The reasons in support of a term longer than three years for this agreement is similar to those for the Thomson Trademark License Agreement.

3. PRC Sales and Marketing Agency Agreement

3.1 *Parties*

(a) Principal: TTE

(b) Agent: Sales Company

3.2 *Appointment of agent and scope of services*

TTE shall appoint Sales Company as (a) 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 (b) an exclusive distributor to purchase all TV end-products for resale in the PRC (the "Scope of Services").

Sales Company shall, in its capacity as a principal, purchase the TV end-products from TTE and distribute them in the PRC.

3.3 *Exclusivity*

Save and except certain exceptions agreed by the parties, none of Sales Company and its affiliates may directly or indirectly engage in any competing business activities within the Scope of Services.

TTE shall not engage any third party for activities within the Scope of Services. The agreement does not prevent TTE to sell and market (i) products as an OEM manufacturer for other customers and (ii) private label products provided that such business activities do not have an adverse impact on the sales of "TCL" branded TV products in the PRC.

3.4 *Expenses and commissions*

Purchase Price

Sales Company shall pay TTE the purchase price in respect of the TV end-products Sales Company sold in relevant territory under the agreement.

Cost

TTE shall pay certain budgeted, reimbursable costs and expenses incurred by Sales Company for the provision of the services under the agreement.

Base commission

In addition, TTE shall pay Sales Company a base commission determined as the product of (i) base commission rate (to be agreed by the parties) for each semi-annual period, which shall be between 6% and 10%) and (ii) purchase price collected by the agent for the products sold.

Performance incentive commission

TTE may at its sole discretion offer Sales Company a performance incentive commission equal to the product of a commission rate between 1% and 2% and any excess of net sales of the products of TTE in the PRC over the sales target for a semi-annual period.

3.5 *Term and termination*

(a) The agreement shall become effective upon execution and shall continue until the earlier of

(A) the latest of

(i) five years from the date of the agreement;

(ii) such date as may be agreed by the parties in writing upon renewal of the agreement; and

(iii) the date on which TCL Corp holds in aggregate less that 50% of the initial 67% of the total issued share capital of TTE.

(B) 20 years from the date of the agreement

(b) Notwithstanding (a) above, the agreement may be terminated at the earlier of (i) the mutual consent of both parties (ii) by either party immediately if the other party ceases to carry on its business or undergoes a change in control that has a material adverse effect on the interest of that party and (iii) assuming the exercise of the Exchange Option, the completion of the acquisition of the Sales Interest from TCL Corp.

(c) Either party shall be entitled to serve on the other party a termination notice if the other party is materially underperformed with reference to the semi-annual sales plan or in material breach or default of the agreement. The termination shall be effective one year after the receipt by the other party of the termination notice.

3.6 *Determination of Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate amounts payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$802 million, HK$1,703 million and HK$1,938 million respectively.

The monetary limits for the agreement are determined based on (i) projected increase in the business volume of TTE in the PRC following the Combination; (ii) the maximum 10% base commission; and (iii) the payment of 3% performance incentive commission to the Sales Company; taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range, (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale.

3.7 *Reason for term in excess of three years*

Save and except that the distribution network concerned is related to the PRC, the reasons in support of a term longer than three years for this agreement are similar to those for the North America Sales and Marketing Agency Agreement.

4. TCL Preferred Supplier Agreement

4.1 *Parties*

(a) Purchaser: TTE

(b) Supplier: TCL Corp

4.2 The agreement to be entered into by TTE with TCL Corp will be substantially the same as Thomson Preferred Supplier Agreement as described above containing similar rights and obligations. As TCL Corp is not a supplier for CRTs, CRTs are specifically excluded in the defined term of Components in the agreement as opposed to the Thomson Preferred Supplier Agreement as described above. For details of the terms in relation to appointment of preferred supplier, designation as preferred customer and operational matters, please refer to the relevant paragraph under Thomson Preferred Supplier Agreement.

4.3 *Term and termination*

The agreement shall continue until the earliest of:

(a) the later of (i) three years from the date of the agreement; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; (iii) the date on which the Company holds less than 50% of the initial 67% of the total issued share capital of TTE; and (iv) should the Exchange Option be exercised, the date on which TCL Corp holds less than 50% of its initial percentage of the total issued share capital of the Company upon such exercise;

(b) 15 years from the date of the agreement;

(c) termination by either party due to the other party's liquidation or material breach; and

(d) the date on which the TCL Corp and its affiliates hold less than 13.25% of the total issued share capital of TTE or should the Exchange Option be exercised, certain minimum percentage of the total issued share capital of the Company.

4.4 *Determination of the Caps*

Based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2006, the Directors expect that the aggregate amounts payable under the agreement for each of the three financial years ending 31 December 2006 will not exceed HK$1,595 million, HK$5,543 million and HK$10,104 million respectively.

The monetary limits for the agreement are determined based on (i) projected increase in terms of expenditure in the raw materials requirement of the TTE Group following Combination (based upon the historical amount of HK$512 million paid by the Company to TCL Corp for sourcing of raw materials), and (ii) projected increase in the sales of TV products by the TTE Group, taking into consideration the expected operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale.

4.5 *Reason for term in excess of three years*

Given that the Group is currently sourcing components and other materials (excluding CRTs) from TCL Corp, it is in the interest of the Company if TTE is able, as the Group has been, to secure a stable supply of components and other materials at competitive market price for a period longer than three years.

ANNUAL REVIEW OF CONTINUING CONNECTED TRANSACTIONS

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in Rules 14A.37 to 14A.41 of the Listing Rules. The Company specifically undertakes upon any variation or renewal of the above relevant agreements, the Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE COMBINATION AND THE CONTINUING CONNECTED TRANSACTIONS

The Directors believe that the Combination will enable TTE to become a major global company in the TV industry by combining the resources of the respective TV related businesses and assets of the Group and the Thomson Group. The Combination will strengthen the Company's competitiveness and facilitate its expansion into overseas markets and the emerging digital TV market.

TTE's key assets and strengths will include, among others, (a) solid market position and strong brands in all main regions, such as the "TCL" brand in Asia, the "Thomson" brand in Europe and the "RCA" brand in the USA; (b) extensive sales network offering broad coverage in Asia, the USA and Europe; (c) a cost-efficient manufacturing platform with facilities near each major consumer market; (d) strong technological capabilities with broad coverage of analog and digital technologies; and (e) a comprehensive range of high-quality TV products and related services. The Directors currently expect TTE to achieve significant operational synergies, particularly with revenue synergies driven by global presence, comprehensive product range and increased R&D resources for innovation, sourcing and materials synergies through volume pooling, chassis optimization and standardization of components, and manufacturing synergies driven by economies-of-scale and optimization of global footprint, for instance, transfer of the manufacturing of small to medium screen size TVs to China and Thailand, and exporting TV components manufactured in China for assembly outside of China.

The Thomson Group's and the Group's geographical footprints are highly complementary, which will reduce the Group's costs of expansion into overseas markets. Domestically, the Group operates one of the most extensive and efficient distribution networks for consumer electronics products in China. The "TCL" brand is one of the most well-recognized among consumers in the PRC. Outside China, the Group will gain direct access to the USA and Europe with well-known brands of "Thomson" and "RCA" through TTE.

Thomson has one of the most extensive R&D capabilities in relation to TV. With the enhanced R&D capabilities contributed by the Thomson Group, TTE aims to further strengthen its competitiveness, and to position itself for the rapid growth in global demand for digital TV. It is expected that TTE will enable the Group to improve its product variety and increase contributions from advanced TV models.

The Board believes that the Operation Agreements will increase the resources available to the Company, including access to distribution channels in North America and Europe and important intellectual property rights for the business, and will create significant value for Shareholders in the long-term.

FINANCIAL EFFECTS OF THE COMBINATION AND CONTINUING CONNECTED TRANSACTIONS

In considering the audited combined financial information of Thomson's TV business set out in the Accountants' Report to determine some of the financial impact of the Combination on the Company, Shareholders should note the limitations in the information available, principally because Thomson's TV business was not a separate legal entity within Thomson nor managed separately from Thomson's other consumer products activities. No accounts have previously been prepared for the TV business on a stand-alone basis. Shareholders are referred to the opinion of the reporting accountants set out on page 93 to 94 of the Circular.

Net Tangible Assets

The Company reported net tangible assets of HK$3,276 million as of 31 March 2004 after taking into consideration payment of final dividend of HK$272 million, which is approximately HK$1.20 per share based on 2,735,515,812 Shares in issue as at the Latest Practicable Date. The unaudited adjusted pro forma combined net tangible asset of the Group as enlarged by the Combination is HK$3,940 million, which is approximately HK$1.44 per share based on 2,735,515,812 Shares in issue as at the Latest Practicable Date. This represents a 20% increase in net tangible assets per Share due to Thomson's contribution for its stake in TTE.

Earnings

The historical financial information of Thomson's TV business is not entirely representative of the impact the Combination likely to have on TTE's earnings, primarily for the following reasons:

Based on the Accountants' Report on the Thomson TV Business prepared under French generally accepted accounting principles,

(1) The operating loss for 2002 and 2003 includes non-recurring charges of €29 million (about HK$272.6 million) and €44 million (about HK$413.6 million) respectively, which are on account of "one-off" events that should not impact TTE. For example, Thomson has incurred additional manufacturing costs of some discontinued products resulted from its decision to dissolve its joint venture partnership with Gemstar in 2002. Thomson has also undergone significant restructuring in its Mexico plants prior to the formation of TTE. The Company does not foresee any major restructuring charges going forward, but even if

they are incurred, Thomson has agreed to reimburse TTE up to an aggregate amount of €33 million (about HK$310.2 million) in actual restructuring costs incurred in relation to the Thomson TV business within two years from the Closing Date.

(2) The historical financial information of Thomson's TV business includes losses incurred on products manufactured at the Angers Factory. Pursuant to the terms of the Operation Agreements, however, the Angers Factory will not be transferred to TTE, but will be a subcontractor to TTE. Both parties have agreed that TTE will purchase TVs from the Angers Factory on a "no profit no loss" basis for TTE, so that any losses on the products manufactured at the Angers Factory will not be incurred by TTE or reflected in its financials.

(3) Thomson's TV business was never a stand-alone entity, so that various costs allocated to the business as per the historical financials of Thomson's TV Business may not be representative of the costs to be incurred by TTE going forward.

Cashflow

With an improvement in its working capital, Thomson's TV business has generated unaudited positive operating cash flows of approximately €59 million (about HK$555 million) (before tax and non-recurring items) in 2003 as per the Accountants' Report. It is expected that TTE will be able to secure adequate funding for its working capital requirements. In addition, Thomson has agreed to purchase, on a rolling basis, up to a maximum outstanding amount of €100 million (about HK$940 million) of the trade account receivables from TTE and its relevant subsidiaries for the first two years, which would help funding the initial operation of TTE.

BUSINESS PROSPECTS

The Company reported TV revenue of approximately HK$12.4 billion (about €1.3 billion) for the year ended 31 December 2003, maintaining its number one position in the PRC with a 19% market share. Thomson's TV business revenue for the same period was approximately €1.7 billion (about HK$16.1 billion) with market share of 10.9% in North America and 8% in Europe respectively. The joint venture will allow the Company to gain immediate access to all major markets, with manufacturing plants in North America, Europe and Asia. TTE will optimize its global manufacturing footprints to deliver the most competitive cost structure. With its strong brand presence and full range of products, TTE will be able to serve a wide span of end markets. TTE is expected to achieve sourcing synergies through economies-of-scale and standardization of components, manufacturing synergies through plant optimization, and revenue synergies driven by global presence and a complete product range (from OEM to A-brands) of both TCL and Thomson, e.g., additional OEM/no name/opening price point ("OPP") offerings in the U.S., high-end products in the U.S. and China, and penetration into new markets.

In the U.S. and Europe, TTE will focus on strengthening its competitiveness through efficiency enhancement and cost control measures. Some of the major initiatives are (a) introducing lower-cost components and chassis to increase margin on "Thomson" and "RCA" products; (b) introducing OPP and lower-cost products in the U.S. and Europe under Thomson's B-brand; (c) optimizing R&D resources across all laboratories; and (d) leveraging scale to obtain preferential terms from suppliers and vendors. In China, TTE will focus on introducing high-end products, such as LCD and PDP TVs as well as strengthening its platform in the middle-end product segment. In addition, TTE will prioritize its strategic focus on metropolitan markets in China and refine its pricing strategy. TTE will continue its effort in gaining market share in the emerging markets, such as Southeast Asia, Australia, India, Middle East, Africa, Russia and Hong Kong, TTE also plans to continue the expansion and development of the OEM business. By leveraging its global manufacturing platform and broad product range, TTE will be able to deliver more competitive products to its customers.

The Group has identified the following challenges facing the Combination and has developed implementation strategies for addressing the challenges:

(a) In order to turnaround the net loss position of Thomson's TV business in 2002 and 2003, the Group will focus on increasing its efficiency and reducing cost in North America and Europe through sourcing, manufacturing and other synergies arising from the Combination. One of the important near-term objectives is to enable TTE to compete effectively in these markets against exports from other Asian manufacturers, particularly in the low-to middle-end segments.

(b) The Group notes that the differences in the corporate culture and management philosophy of the Company and Thomson's TV business may be a challenge to the management of TTE. In the past, the Group successfully acquired the Schneider Electronics GmbH and other overseas businesses. Through reorganisation of the Schneider business, the Group has gained valuable experience in managing the cultural differences of overseas corporations, and where applicable will leverage on such experience in the implementation of the Combination. TTE will ensure a smooth merger by retaining the existing core management team of the Thomson TV Business. TTE will also adopt employee incentive schemes to reward those employees who make contributions to the long-term growth of the TTE Group.

(c) Pursuant to the Combination Agreement, Thomson's sales networks, trademarks and TV patents do not form part of its contribution to the TTE Group. TTE will however enter into the Operation Agreements with Thomson for ensuring that TTE will be able to continue to benefit from the distribution networks, customer relationships, brand presence and TV patent portfolio built by Thomson over many years.

    Since Thomson's worldwide TV R&D center is part of its contribution to the Combination, TTE will have independent R&D capabilities of world-class standards for development of its own patents. It is expected that in the future, TTE will be able to leverage on its own patent portfolio to derive new revenue source through patent licensing and receive more favorable terms from other patent licensors through cross-licensing arrangements.

INFORMATION ON THE GROUP

The Group is a leading multimedia consumer electronics product manufacturer, with a strong brand presence in China and Asia. Its core products include TVs, mobile handsets, personal computers, audio-visual equipment as well as information technology services. Under its highly recognized and well-established TCL brand, it is one of the strongest players in the TV and mobile handset marketplace in China. Committed to expanding globally, the Group acquired the assets of Schneider, a Germany-based consumer electronics brand in Europe in 2002. The Group operates a number of highly efficient manufacturing bases in China, Asia and Europe. For further information on the Company, please visit *www.tclhk.com*. (The information that appears in this website does not form part of the Circular.)

INFORMATION ON THE THOMSON GROUP

Thomson Group is the leading provider of technology and service solutions for integrated entertainment and media companies. By capitalizing on and expanding its leadership positions at the intersection of entertainment, media and technology, Thomson Group provides end-to-end solutions to content creators, video network operators and manufacturers and retailers through its Technicolor, Grass Valley, THOMSON and RCA brands. To advance and enable the digital media transition, Thomson has three principal divisions: Digital Content Solutions, Video Networks Solutions and Industrial and Consumer Solutions. Thomson Group distributes its products under the THOMSON, RCA, Technicolor and Grass Valley brand names. Thomson's TV manufacturing plants are located in Mexico, Poland, France and Thailand with TV products mainly distributed to the U.S. and Europe. For more information regarding Thomson and Thomson Group, please visit its website at *www.thomson.net*. (The information that appears in this website does not form part of the Circular.)

INFORMATION ON THE TCL CORP

TCL Corp is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, telecommunications, information technology and electrical products. The brand name "TCL" is among the most widely recognized in China. According to recent survey by Beijing Famous-Brand Evaluation Co. Ltd., "TCL" was the sixth most valuable brand name in China in 2003. For further information on TCL Corp, please visit *www.tcl.com*. (The information that appears in this website does not form part of the Circular.)

EXTRAORDINARY GENERAL MEETING

The Company will convene the EGM at which resolutions will be proposed for the purpose of considering and if thought fit, approving the Combination Agreement and the transactions contemplated thereunder (including the Transaction Documents to which the Group is a party), the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions contemplated under the Operation Agreements and the Caps. TCL Corp and its associates are required to abstain from voting on the resolutions for approving the Acquisition and the non-exempt TCL Corp continuing connected transactions pursuant to the Listing Rules. Save for the resolutions for approving the Acquisition and the non-exempt TCL Corp continuing connected transactions, TCL Corp and its associates are entitled to vote on all the resolutions set out in the notice of the EGM on pages 179 to 182 of the Circular (i.e. all resolutions other than the Acquisition and the non-exempt TCL Corp continuing connected transactions) and intend to vote for such other resolutions at the EGM. It is the present intention of the parties to the Combination Agreement that in the event the resolution for approving the Acquisition is not passed by the Independent Shareholders at the EGM, they will waive the relevant condition and proceed with Closing and effect the Combination without the Wuxi and Inner Mongolia Assets with appropriate adjustments. Thomson and its associates (if at the time of EGM holding any Share) are required to abstain from voting on the resolutions for approving the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement and the non-exempt Thomson continuing connected transactions. The notice of the EGM is set out on pages 179 to 182 of the Circular. A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company in Hong Kong at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong and in any event by no later than 48 hours before the time appointed for the holding of the EGM (or any adjourned meeting thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

LISTING AND DEALING

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued upon the exercise of the Exchange Option by Thomson. No part of the share capital of the Company is listed or being dealt in on, and no listing or permission to deal is being or proposed to be sought on, any other stock exchange.

RECOMMENDATION OF INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been established to advise the Independent Shareholders regarding the fairness and reasonableness of the terms of the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the Caps. The Independent Board Committee comprises only one independent non-executive Director, Dr. Hon Fong Ming as the other independent non-executive Director Mr. Albert Thomas da Rosa is a partner of Cheung, Tong & Rosa, legal advisers to the Company as to Hong Kong law in connection with the Combination and the transactions contemplated thereunder. Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 53 of the Circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolution to approve the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the Caps and (b) the letter from Commerzbank set out on pages 54 to 86 of the Circular which contains its advice to the Independent Board Committee.

The Independent Board Committee, having taken into account the advice of Commerzbank, considers that the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the Caps are in the interests of the Company and the Shareholders as a whole and that the terms thereof as well as the Caps are fair and reasonable in so far as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions which will be proposed at the EGM relating to the aforesaid matters which are subject to independent shareholders' approval.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices and the notice of the EGM set out in the Circular.

Yours faithfully,
By order of the Board
Li Dong Sheng, Tomson
Chairman

TCL INTERNATIONAL HOLDINGS LIMITED

TCL 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

31 May 2004

To the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS
EXCHANGE OPTION AGREEMENT

CONNECTED TRANSACTIONS
PURCHASE OF WUXI AND INNER MONGOLIA ASSETS
CALL OPTION AGREEMENT
DVD OPTION AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
OPERATION AGREEMENTS

I have been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the Caps, details of which are set out in the letter from the Board in the circular of the Company dated 31 May 2004 (the "Circular") to the Shareholders, of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise requires.

Having taken into account of the advice of Commerzbank, I consider that the Acquisition, the Exchange Option Agreement, the Call Option Agreement, the DVD Option Agreement, the Relevant Continuing Connected Transactions and the Caps are in the interests of the Company and the Independent Shareholders as a whole and that the terms thereof as well as the Caps are fair and reasonable in so far as the Company and the Independent Shareholders are concerned. Accordingly, I recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in this respect.

Yours faithfully,
Hon Fong Ming
Independent Board Committee

德 國 商 業 銀 行

COMMERZBANK

(Public Limited Company Incorporated in the Federal Republic of Germany)

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31 May 2004

To the Independent Board Committee

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
EXCHANGE OPTION AGREEMENT

CONNECTED TRANSACTIONS
ACQUISITION OF WUXI AND INNER MONGOLIA ASSETS
DVD OPTION AGREEMENT
CALL OPTION AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
OPERATION AGREEMENTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition, the Exchange Option Agreement, the DVD Option Agreement, the Call Option Agreement and the Relevant Continuing Connected Transactions, details of which are set out in this Circular of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 30 January 2004, the Board announced that the Company had entered into a Combination Agreement with Thomson and TCL Corp for the establishment of TTE, pursuant to which the Company was required to contribute to TTE Group its entire TV businesses, including the Wuxi and Inner Mongolia Assets purchased by the Company from the TCL Corp Group. The Combination Agreement was subject to certain conditions, including but not limited to the finalisation and/or execution of the Transaction Documents and the approval by the Shareholders and the Independent Shareholders (as the case maybe).

By a subsequent announcement, the Board further announced that the Company had entered into the conditional sale and purchase agreement for the acquisition of the Wuxi and Inner Mongolia Assets from TCL Corp Group and had finalised all of the Transaction Documents. As a result of the establishment of TTE, certain continuing connected transactions will be entered into between the Group, Thomson Group and TCL Corp Group upon Closing.

TCL Corp is the controlling shareholder of the Company and currently holds approximately 54.2% of the entire issued share capital of the Company. Accordingly, the Acquisition will constitute a connected transaction of the Company under the Listing Rules. Following Closing, the entire issued share capital of TTE will be held by the Company and Thomson as to 67% and 33%, respectively. Accordingly, both TCL Corp and Thomson will constitute controlling shareholders of the Company under the Listing Rules. The exercise of the Exchange Option by Thomson will constitute a connected transaction of the Company under Rules 14A.68 and 14A.69 of the Listing Rules, the exercise of the DVD Option by TTE and/or the exercise of the Call Option by the Company will constitute connected transactions of the Company under Rules 14A.68 and 14A.70 of the Listing Rules and the execution of some of the Operation Agreements concerning the future operation of TTE will constitute Relevant Continuing Connected Transactions of the Company under the Listing Rules, which are subject to the approval by the Independent Shareholders. Our role as the independent financial adviser to the Independent Board Committee is to give our opinion as to whether the terms of the Acquisition, the Exchange Option Agreement, the DVD Option Agreement, the Call Option Agreement and the Relevant Continuing Connected Transactions are (a) carried out in the ordinary and usual course of the Group's business, (b) based on normal commercial terms and are fair and reasonable, in so far as the Independent Shareholders are concerned.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate and we have relied on the same. Also, we have relied on the representations of the Company that having made all due enquiries and careful decisions, and to the best of their knowledge and belief, there are no other facts or representations, the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which they are wholly responsible, are true, complete and accurate at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the terms of the Acquisition, the Exchange Option Agreement, the DVD Option Agreement, the Call Option Agreement and the Relevant Continuing Connected Transactions and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company, nor have we conducted any independent in-depth investigation into the business and affairs of the Group.

A. THE ACQUISITION OF WUXI AND INNER MONGOLIA ASSETS

In assessing the Acquisition and giving our independent financial advice to the Independent Board Committee, we have taken into consideration the principal factors and reasons as set out below.

1. Reasons for and benefits of the Acquisition

As disclosed in the Combination Announcement, the Company wishes to create a major global player in the business of TV R&D, manufacturing, sales and distribution which will combine the resources of the respective TV related businesses and assets of the Group and the Thomson Group. As stipulated under the Combination Agreement, the Company is required to purchase from TCL Corp Group the Wuxi and Inner Mongolia Assets as part of its contribution into TTE. Therefore, the acquisition of the Wuxi and Inner Mongolia Assets is part of the Company's effort to streamline the Group's TV business and to enable the Company to fulfill its obligations under the Combination Agreement.

As set out in the Circular, the Wuxi Co and the Inner Mongolia Co have manufacturing plants with floor space of 54,000 sq.m. and 80,000 sq.m., respectively. Each of them has an annual colour television production capacities of approximately 1.5 million sets.

2. Consideration

As set out in the Circular, the consideration for the acquisition of the Wuxi Assets and the Inner Mongolia Assets is RMB105.7 million (equivalent to approximately HK$99.7 million) and RMB125.8 million (equivalent to approximately HK$118.7 million), respectively (collectively, the "**Consideration**"). The Consideration has been arrived at on arm's length negotiation, on normal commercial terms and was determined with reference to the net asset value of the Wuxi Co and the Inner Mongolia Co as at 31 December 2003, which was RMB151.1 million (equivalent to approximately HK$142.5 million) for Wuxi Co as disclosed in the valuation report dated 10 March 2004 prepared by Wuxi Zhongxin Certified Public Accountants Co., Ltd., an independent PRC valuer and RMB125.8 million (equivalent to approximately HK$118.7 million) for Inner Mongolia Co, as disclosed in the valuation reports dated 12 March 2004 prepared by Neimenggu Huafang (Lianhe) Certified Public Accountants Co., Ltd., an independent PRC valuer. Accordingly, the Consideration represents approximately their respective net asset value.

The audited net profit after taxation and extraordinary items of the Wuxi Assets for the year ended 31 December 2003 was RMB8 million (equivalent to approximately HK$7.6 million). Accordingly, the consideration for the acquisition of the Wuxi Assets represents a 2003 price-to-earnings (the "**P/E**") ratio of approximately 13.2 times.

The audited net profit after taxation and extraordinary items of the Inner Mongolia Assets for the year ended 31 December 2003 was RMB6.2 million (equivalent to approximately HK$5.8 million). Accordingly, the consideration for the acquisition of the Inner Mongolia Assets represents a 2003 P/E ratio of approximately 20.3 times.

3. Basis for the Consideration

As noted in the letter from the Board (the "**Letter from the Board**"), the Consideration for the Acquisition was negotiated and entered into on an arm's length basis, on normal commercial terms and the basis adopted in determining the Consideration was made by reference to the net asset value of the Wuxi Co and the Inner Mongolia Co respectively as at 31 December 2003.

In assessing the fairness and reasonableness of the Consideration, we have researched, through Bloomberg and other sources, transactions of similar sizes that are comparable to the Acquisition in the TV manufacturing industry in the past two years. After reviewing the search results, and given the lack of publicly available information, we have concluded that it is difficult to identify any closely comparable transactions.

Due to a lack of comparable transactions, we have made reference to the trading multiples of (i) 4 comparable companies in Hong Kong and the PRC whose principal business is similar to the Wuxi Co and the Inner Mongolia Co, i.e. manufacturing and sales of TV (the "**Comparable Companies**"), (ii) TCL Corp and (iii) the Company. In choosing trading multiples, we have selected the price-to-book (the "**P/B**") ratio and the P/E ratio. Both the P/B and P/E ratios are commonly used in valuing companies in the manufacturing industry. We note that as at the date of the Combination Agreement, shares of the Comparable Companies were traded at an average P/B ratio of approximately 1.4 times, the shares of TCL Corp and the Company were traded at P/B ratios of approximately 5.0 times and 2.3 times respectively. The Consideration represents approximately 20% premium on the net book values attributable to the Wuxi and Inner Mongolia Assets as at 31 December 2003, i.e. an implied P/B ratio of 1.3 times and is approximately the same as the net asset values of Wuxi Co and Inner Mongolia Co as disclosed in the respective valuation reports prepared by the independent PRC valuers. Given the P/B ratio of 1.3 times implied by the Consideration is below the P/B ratios of the average Comparable Companies, TCL Corp and the Company, we consider that the basis adopted in determining the Consideration is fair and reasonable in so far as the Independent Shareholders are concerned.

	P/B ratio *(x)*	**P/E ratio** *(x)*
Wuxi Assets	1.3	13.2
Inner Mongolia Assets	1.3	20.3
Wuxi and Inner Mongolia Assets	1.3	16.7
Based on closing prices as at 28 January 2004		
Average of the Comparable Companies*	1.4	48.9
TCL Corp	5.0	21.2
The Company	2.3	14.6

***Comparable Companies**	**Bloomberg code**	**P/B ratio*** *(x)*	**P/E ratio*** *(x)*	**Gross margin^** *(%)*	**EBIT margin^** *(%)*
Skyworth Digital Holdings Ltd.	751 HK	1.8	18.6	15.3	3.4
Hisense Electric Co., Ltd.	600060 CH	1.5	82.1	15.0	0.9
Konka Group Co., Ltd.	200016 CH	1.0	28.6	16.7	1.2
Sichuan Chonghong Electric Co., Ltd.	600839 CH	1.2	66.2	14.5	1.8
Average		1.4	48.9	15.4	1.9

* Based on closing prices as at 28 January 2004, the date of the Combination Agreement. (*Source*: Bloomberg)

^ Based on the published audited accounts for the financial year 2003 (*Source*: Bloomberg)

In addition to the P/B ratio, we have also conducted our assessment of the Consideration by comparing the P/E ratios, which is also widely used in the valuation of manufacturing companies.

In the calculation of the P/E ratios, we have used reported 2003 earning per share figures for companies with financial year ending 31 December. For companies with financial year ending 31 March, we have used the consensus forecast earnings per share figures quoted from Bloomberg for the year ended 31 March 2004, which in our view, are more comparable to 2003 earnings per share figures for companies with financial year ending 31 December.

As at 28 January 2004, which is the date of the Combination Agreement, shares of the Comparable Companies were traded at an average 2003 P/E ratio of approximately 48.9 times, whereas the shares of TCL Corp and the Company were traded at 2003 P/E ratios of 21.2 times and 14.6 times respectively. The P/E ratio of 13.2 times implied by the Consideration for the acquisition of the Wuxi Assets and the P/E ratio of 20.3 times implied by the Consideration for the acquisition of the Inner Mongolia Assets are within the range of P/E ratios of the Comparable Companies, TCL Corp and the Company. We are of the view that the overall implied P/E ratios for the Consideration of the Wuxi and Inner Mongolia Assets are in line with the P/E ratios of the Comparable Companies, TCL Corp and the Company. In this connection, we consider that the basis in determining the Consideration is fair and reasonable in so far as the Independent Shareholders are concerned.

The Consideration for the Acquisition represented (i) the net asset value of the Wuxi and Inner Mongolia Assets as at 31 December 2003 (as per the valuation reports conducted by the independent PRC valuer), and (ii) discounts to the P/E and P/B ratios of the Comparable Companies, the Company and TCL Corp. Having considered the above as a whole, we are of the view that the basis in determining the terms and the Consideration of the Acquisition, from a financial perspective, are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

B. EXCHANGE OPTION

Pursuant to the Combination, the Company will grant to Thomson an irrevocable option to exchange all (but not part) of its TTE Shares for new Shares to be issued by the Company. The option is exercisable within the period from the earlier of (a) the completion of the Mobile Spin-Off; and (b) 18 months after the Closing Date, and ending on, subject to certain extensions, the expiry of three months after the first public release of annual or semi-annual financial statements of the Company subsequent to the commencement of the exercise period.

1. Mobile Spin-Off

As set out in the Letter from the Board, we note that the number of Shares to be issued to Thomson on the Share Exchange will depend on whether the Mobile Spin-Off has been completed. Assuming the completion of the Mobile Spin-Off, the number of Shares to be issued to Thomson shall be 1,149,140,810, representing approximately 30% of the aggregate of (i) the issued share capital of the Company at the close of business on 31 December 2003; and (ii) the number of new Shares to be issued to Thomson upon the Share Exchange, subject to certain adjustments, including adjustments for share split, consolidation, reclassification or extraordinary dividend payments as provided in the Exchange Option Agreement.

Pursuant to the agreement, in the event that the Mobile Spin-Off has not been completed at the time of the Share Exchange, the number of Shares to be allotted and issued to Thomson on the exercise of the Exchange Option will be determined on the relative valuation of Thomson's stake in TTE and the valuation of the Company (including the value of its Mobile Interests) at the time of exercise, to be determined by an investment bank selected by both parties of the Exchange Option Agreement.

We also note that irrespective of whether the completion of the Mobile Spin-Off upon the Share Exchange, it is agreed that TCL Corp will remain the single largest shareholder of the Company and the number of Shares to be received by Thomson shall in no circumstance be equal to or exceed 30% of the issued share capital of the Company upon the Share Exchange.

In determining whether the methodology used in calculating Thomson's likely shareholding of 30% in the Company on Share Exchange (assuming the Mobile Spin-Off is completed), in exchange for its 33% equity interests in TTE is fair and reasonable, we have discussed and understand from the Directors that the valuation was determined on the basis of the relative valuation of the Company (excluding its Mobile business) and the combined value of the Company's and Thomson's TV businesses contributed to TTE. Based on the nascent stage of the Company's non TV, non Mobile businesses and the minimal contribution to the Company's value historically by those businesses, the parties agreed to give Thomson a 30% stake in the Company in exchange for its 33% stake in TTE. We have reviewed the Company's historical financial results and noted that the Company's TV business contributed almost all of its consolidated operating income in financial year 2002 and 2003. Given that the Company's principal business will be TV manufacturing, sales and distribution upon Closing and the Mobile Spin-off, we are of the view that Thomson's 33% equity interest in TTE in exchange for approximately 30% equity interest in the Company is fair and reasonable in so far as the Independent Shareholders are concerned.

2. Payment by the Company to Thomson on the exercise of the Exchange Option

As set out in the Letter from the Board, we note that in consideration of the Company's cash payment to TCL Corp for the Acquisition, the Company shall pay HK$61.1 million (the "**Payment**") to Thomson at the closing of the Exchange Option. Based on our discussion with the Directors and pursuant to the Combination Agreement, the Company will have to acquire from TCL Corp Group and contribute to TTE the Wuxi and Inner Mongolia Assets at a cash consideration of approximately RMB231.5 million (equivalent to approximately HK$218.4 million). We understand from the Directors that the Payment is meant to compensate Thomson, as a Shareholder upon the exercise of the Exchange Option, for its deemed cash contribution for the Acquisition from TCL Corp by the Company. The amount of the Payment has been determined on the basis of the cash consideration to be paid to TCL Corp for the Acquisition, taking into account Thomson's likely equity interest in the Company, assuming the Mobile Spin-Off is completed.

We understand from the Directors that as part of its contribution for the 67% equity stake in TTE, the Company was initially contributing 85% of the shareholding in the Inner Mongolia Assets and 70% shareholding in the Wuxi assets to TTE. In this connection, payment to Thomson was calculated based on the acquisition price of 85% of the Inner Mongolia Assets and 70% of the Wuxi assets. The acquisition price for these assets was RMB212.6 million (equivalent to approximately HK$200.6 million), and Thomson was to have been compensated in cash for RMB63.8 million (equivalent to approximately HK$60.2 million), based on its likely stake of 30% in the Company, after the exercise of the Exchange Option. However, the

Company was subsequently given the option to acquire the remaining 15% equity interest in the Inner Mongolia Assets from a subsidiary of TCL Corp. In calculating for the Payment for the additional 15% stake in the Inner Mongolia Assets, Thomson agreed to be compensated only for its 30% share of the difference between the purchase price and the net book value of the additional 15% stake as at 31 December 2003, which translated into an additional payment of approximately RMB0.9 million (equivalent to approximately HK$0.8 million) to be made to Thomson on its exercise of the Exchange Option. In this circumstances, we are of the view that the methodology used in arriving at the Payment is fair and reasonable in so far as the Independent Shareholders are concerned.

3. Rationale for the terms of the Exchange Option

Based on our discussion with the Directors, we understand that although Thomson has indicated its commitment to remain as a long-term shareholder of TTE and has agreed to a 5-year lock-up period, it has negotiated with the Company on an arm's length basis the Exchange Option which is intended to provide Thomson means of liquidity over the long-run for its shareholding in TTE. The Directors are of the view that it is in the interest of the Company to provide liquidity to Thomson based on terms of the Exchange Option Agreement rather than through other alternatives which could result in the Company's TV business being held by multiple listed entities.

We also understand that the Company is undergoing corporate restructuring to streamline its different business units. The partnership with Thomson Group is to combine the respective TV businesses of the Company and the Thomson Group in order to become a major global player in the business of TV R&D, manufacture, sales and distribution. As at the date of the Combination Agreement, the restructuring of the Company's respective businesses was still on-going. The Directors believe that it is in the interest of the Company to merge and integrate all of its TV businesses under one entity as and when the operation of TTE becomes more mature. The Exchange Option Agreement allows the Company to consolidate its ownership and control of the TV businesses of the Company upon the completion of such integration and streamlining.

Having taking into consideration of the above, we are of the view that the basis in determining the terms of the Exchange Option Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

C. DVD OPTION AGREEMENT

Based on our discussions with the Directors, we understand that the Thomson DVD Business was initially to have been included in the Combination, with an allocated value of €20 million (equivalent to approximately HK$188 million). However, prior to the date of the Combination Agreement, the parties have decided to exclude the Thomson DVD Business from the Combination without adjusting Thomson's asset contributions. Accordingly, Thomson will grant to TTE an irrevocable option to acquire the Thomson DVD Business for no consideration, which option can only be exercised in whole but not in part during the period commencing on the Closing Date and ending on 31 December 2004.

Pursuant to the agreement, we note that if the option is not exercised by TTE, Thomson would be required to contribute to TTE €20 million (equivalent to approximately HK$188 million) worth of current or non-current tangible or intangible assets. We have reviewed the adjustment mechanism in the event that the option is not exercised by TTE. If an exercise notice has not been given by TTE, Thomson shall give a written notice and propose to TTE to contribute specific assets owned by Thomson that have an aggregate fair market value of no less than €20 million (equivalent to approximately HK$188 million). TTE will have a discretion as to either accept or reject, in whole or in part, the proposal from Thomson. In the event that TTE accept part of the assets, which value is less than €20 million (equivalent to approximately HK$188 million), an expert (as set out in the agreement) will be appointed to determine the shortfall (the "**Shortfall**").

If Thomson and TTE fail to reach an agreement within four months after the determination of the Shortfall, the expert shall determine the compensation in the form of one or more of (a) cash; (b) assets that are relevant to and reasonably usable in TTE's operating business; and/or (c) dilution of Thomson's interest in TTE through the cancellation of a certain number of TTE shares owned by Thomson. The decision of the expert shall be conclusive and binding. We understand that any compensation in the form of dilution of Thomson's interest shall be implemented with reference to (i) the amount of Shortfall; (ii) the total number of TTE shares owned by Thomson upon Closing; and (iii) the fair market value of TTE immediately after Closing, assuming the inclusion of the Thomson DVD Business with an allocated value of €20 million (equivalent to approximately HK$188 million).

Given that (i) the DVD Option Agreement forms part of the Combination; with an allocated value pre-determined at the time of the Combination Agreement; (ii) the exercise of the option is at the discretion of TTE for no additional consideration; and (iii) subject to mutual agreement between Thomson and TTE, an equivalent amount of assets will be contributed by Thomson to TTE if the option is not exercised, we are of the view that the terms in the DVD Option Agreement are fair and reasonable in so far as the Independent Shareholders are concerned.

D. CALL OPTION AGREEMENT

Pursuant to the Call Option Agreement, Thomson shall grant to the Company an option to be exercised in whole or not in more than two parts, to purchase from Thomson an aggregate of no less than 2.5 million new shares or treasury shares of Thomson. The option shall be exercisable during the Exercise Period, i.e. commencing from three months after the Closing Date (the "**First Exercise Date**") and expiring on the second anniversary from the First Exercise Date, at an exercise price of €18.12 (approximately HK$170.3) per share (the "**Exercise Price**").

Based on our discussions with the Directors, we understand that the option was granted as a part of the overall negotiation of the Combination and that the number of shares to be acquired was arrived at based on negotiation between the parties. The exercise price was arrived at by reference to the then existing market price of the shares of Thomson on or around the execution of the Memorandum of Understanding. We have reviewed the agreement and note that during the Exercise Period, the Company may exercise the option to acquire the shares of Thomson if the option is in-the-money, and Thomson shall issue shares to the Company which equals to the excess value between the option value and the Exercise Price. In the event that the option is out-of-the-money, the Company has no obligation to exercise the option, and will incur no loss. Given that the option gives the Company an opportunity to benefit from the upside of Thomson's shares with no penalty, we are of the view that the Call Option Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

E. RELEVANT CONTINUING CONNECTED TRANSACTIONS

As a result of the Combination and to effect the future operation of TTE, the Group will enter into certain Operation Agreements with TCL Corp Group and the Thomson Group. Certain transactions contemplated under the Operation Agreements will constitute Relevant Continuing Connected Transactions of the Company, which will require the approval of the Independent Shareholders.

As set out in the Letter from the Board, the Relevant Ratio in relation to each of the Thomson Styling Services Agreement and the Thomson Strategic Sourcing Agreement is, on an annual basis, less than 2.5%. Therefore these agreements fall under Rule 14A.34 of the Listing Rules and is only subject to the reporting and announcement requirements as set out in Rule 14A.45 to Rule 14A.47. Consequently, these agreements are exempted from the Independent Shareholders' approval requirement. It is stated in the Letter from the Board that the Company undertakes to comply with the rules in relation to annual review of continuing connected transactions as set out in Rule 14A.37 to Rule14A.41 of the Listing Rules. The Company also specifically undertakes to fully comply with the relevant disclosure and/or Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules should there be a change of circumstances rendering the disclosure or Independent Shareholders' approval requirements.

It should be noted that the Operation Agreements relating to the Relevant Continuing Connected Transactions form part of the Combination and their terms were negotiated on arm's length basis and are determined based on market rates charged to other independent third party providers for the same and similar services in the ordinary and usual course of business (if any). We understand from the Directors that the terms of the services provided by or received from the TCL Corp Group or the Thomson Group will generally be no less favourable than those provided to or received from any independent third parties for the same or similar services.

PRINCIPAL FACTORS CONSIDERED

We set out below a summary of each of the Relevant Continuing Connected Transactions. We have not reviewed the terms of the Combination Agreement, the Corporate Documents (save and except the Exchange Option Agreement, the DVD Option Agreement and the Call Option Agreement) and the Operation Agreements which relate to exempt continuing connected transactions and make no comments on those agreements.

1. TCL Trademark License Agreement

TCL Corp shall grant to TTE an exclusive, non-sublicensable and non-transferable license to use certain of its registered trademarks for the manufacture and sale of TV products, including (i) "TCL" in the Asia-Pacific ("**TCL A Brand**"); and (ii) "TCL" in the rest of the world outside Asia-Pacific and "Rowa" in the PRC (collectively, "**TCL B Brands**") for a period of 20 years, unless terminated in accordance with the agreement.

Pursuant to the TCL Trademark License Agreement, TTE shall not be required to pay any royalty to TCL Corp prior to the second anniversary of the Closing Date. Thereafter, royalties payable shall be linked to the performance of the TTE Group and calculated with reference to the net sales of TV products and the applicable royalty rates. No royalty shall be payable if the payment of any royalty will cause the EBIT percentage of TTE to be less than 3%. If the EBIT percentage is equal to or greater than 3% but less than 6%, the applicable royalty rates for TCL

A Brand products will be 0.5% and TCL B Brands products will be 0.25%. If the EBIT percentage is greater than 6%, the applicable royalty rates for TCL A Brand products will be 1.5% and TCL B Brands products will be 0.75%, respectively.

In addition to the royalty payment, TTE agrees to reimburse TCL Corp for the general brand advertising costs incurred by TCL Corp during the term of the agreement with the general branding fund, subject to a minimum of 0.5% of the aggregate annual net sales of TV products using the TCL A Brand of TCL Corp in the relevant territories for the previous fiscal year.

We note that "TCL" brand TV is ranked No. 1 in terms of volume in the PRC with approximately 19% market share in year 2003. The objective of the combination of the TV businesses between the Group, TCL Corp and the Thomson Group is to create a world leading TV company. According to a recent survey by Beijing Famous Brand Evaluation Co. Ltd., the "TCL" brand was the sixth most valuable brand name in the PRC in 2003 with a leading position in the PRC market. The securing of the "TCL" brand and other related brands from TCL Corp is vital to the continuing development of the TV business of the Group. The reorganisation of the Group and the establishment of TTE with the Thomson Group demonstrate strong commitment of the Group in pursuing a world leading position in the TV business. We note that a similar trademark license agreement will be entered into between TTE and the Thomson Group, with the same agreement duration and similar terms.

We have reviewed the EBIT margin of the Comparable Companies whose principal businesses are engaged in the manufacturing and sales of TV sets in the PRC and Hong Kong. Based on the published audited accounts for the financial year 2003, the EBIT margin of the Comparable Companies ranges from approximately 0.9% to 3.4% and an average of approximately 1.8%.

Based on the discussion with the Directors, we understand from the Directors that the applicable range of royalty rates to be charged by TCL Corp to TTE will be on no less favourable terms than those available to any independent third party (if any). Given that (i) TTE is not required to pay any royalty for the first two years; (ii) TTE is not required to pay any royalty if its EBIT margin is less than 3% after the first two years of royalty free period; (iii) the applicable royalty rate payable by TTE to TCL Corp is on an escalating scale, ranging from 0.25% to 1.5%; and taking into account that TTE is only required to pay a higher royalty rate in the event of an increase in the EBIT percentage; and (iv) the EBIT margin applied as a reference to the applicable royalty rate charged by TCL Corp is above the average of the EBIT margin of the Comparable Companies, we are of the view that the applicable royalty rates charged by TCL Corp is fair and reasonable in so far as the Independent Shareholders are concerned.

Based on our review of publicly available information, no information on advertising expenses alone is separately available. As set out in the Letter from the Board, TCL Corp shall conduct brand promotion and marketing of the licensed trademarks in the ordinary course of business. We have reviewed the agreement and note that procedures are in place for TTE and TCL Corp to discuss next year's budget plan for the general brand advertising campaign prior commencement of each calendar year. In addition, TCL Corp shall submit a proposed budget to TTE on the general brand advertising two months prior commencement of each relevant fiscal semester and a subsequent report evidencing that advertising is conducted in accordance with the approved budget. Based on our discussion with the Directors, given that TTE will benefit from the general advertising and brand names of the "TCL" brand and TCL

Corp's other brands world-wide, which promotion and marketing will be centralised under the TCL Corp, we concur with the view of the Directors that the reimbursement of the general branding fee to TCL Corp is fair and reasonable in so far as the Independent Shareholders are concerned.

We note that the TCL Trademark License Agreement is for a term of 20 years, which exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. However, we understand from the Directors that the establishment of TTE is a commitment between the Company, TCL Corp and the Thomson's Group to combine their respective TV businesses in the PRC, USA and Europe, in which all parties are subject to lock-up periods in the shareholdings in TTE. One of the main objectives in entering into of the joint venture is to leverage on the "TCL" brand in the PRC, which the Directors considered as one of the key assets attaching to the joint venture. Given that TTE will (apart from OEM products), mainly manufacture and sell different TV brands owned by TCL Corp and Thomson, we concur with the view of the Directors that limiting the terms of this agreement to three years will be harmful to the interests of the Company and its Shareholders as a whole as the Group will not be able to fully extract and utilize the brandname of "TCL".

Based on our review of recent publicly available information on Hong Kong listed companies, we note that duration of intellectual property agreements used to have a term of longer than three years. In this connection, we concur with the view of the Directors that it is beneficial for the Company to enter into the TCL Trademark Licence Agreement for a longer duration in order to enable the Group to continue the distribution of such branded products without unnecessary interruption. Moreover, as the Combination Agreement does not entail the assignment of the TCL A Brand and TCL B Brands trademarks, which is material in the context of TTE, we are of the view that it to be normal business practice for the Company to secure this agreement with a maximum term of 20 years.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the TCL Trademark Licensing Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

2. PRC Sales and Marketing Agency Agreement

TTE and Sales Company will enter into an exclusive sales and marketing agency agreement whereby TTE will appoint Sales Company as (a) an exclusive agent to provide after sales, management, marketing, sales and logistics services with respect to all TV end-products of TTE sold or designated to be sold in the PRC; and (b) an exclusive distributor to purchase all TV end-products for resale in the PRC (the "**Scope of Services**"). The agreement shall become effective upon execution and shall continue until, inter alia, the earlier of: (a) the latest of (i) five years from the date of the agreement; (ii) such date as may be agreed by the parties upon renewal of the agreement; and (iii) the date on which TCL Corp and its affiliates hold in aggregate less than 50% of its initial 67% stake in the total issued share capital of TTE; or (b) 20 years from the date of this agreement.

We have reviewed the agreement and note that save and except for certain exceptions, none of Sales Company and its affiliates may directly or indirectly engage in any business activities that are competing within the Scope of Services. Likewise, TTE shall not engage in any business activities within the Scope of Services, except (i) products as an OEM manufacturers for other customers; and (ii) private label products provided that such business activities do not have an adverse impact on the sales of "TCL" brand TV products in the PRC.

We note that in consideration for the Scope of Services provided by the Sales Company, TTE shall pay Sales Company (i) a base commission of 6% to 10% of the net sales; and (ii) reimbursement of certain out-of-pocket expenses. In addition, TTE may, at its sole discretion, offer Sales Company a performance incentive commission which shall be calculated as the product of a commission rate between 1% and 2% and any excess of net sales of the products of TTE in the PRC over the sales target for a semi-annual period. Currently, the Group has similar on-going arrangement with Sales Company in respect of the promotion, sales and distribution of the Group's products in the PRC. Based on our discussion with the Directors, we note that under the current distribution agreement, the base commission rate ranges from 6% to 10%, plus a sales bonus if pre-determined sales target is achieved.

We have discussed with the Directors and understand that Sales Company owns and controls a comprehensive distribution network in the PRC, covering nearly every urban city and major rural area in the PRC. Moreover, the terms contained in the agreement were arrived at on arm's length negotiation, after taking into consideration similar reciprocal arrangement with Thomson and the respective contribution from the Company and Thomson to TTE as a whole. Leveraging on the wide geographical market coverage and existing infrastructure of TCL Corp in the PRC, TTE will gain immediate access to the PRC market.

We have reviewed the gross profit margin (which, we consider, is similar to the base commission rate charged under this agreement) of the Comparable Companies in Hong Kong and the PRC whose principal businesses are engaged in the manufacturing and sales of TV sets. Based on the published audited accounts for the financial year 2003, the gross profit margin of the Comparable Companies ranges from approximately 14.5% to 16.7%. Given (i) the base commission payable by TTE is the same as the existing arrangement with Sales Company, which approval has been obtained from the Independent Shareholders in December 2002; (ii) the base commission rate to be payable by TTE is below the range of the Comparable Companies; and (iii) taking into consideration the performance incentive commission, which purpose is to provide incentive to promote sales of TV in the PRC, we are of the view that the overall commission payable by TTE is likely to be within the range of gross profit margin of the Comparable Companies.

We note that the PRC Sales and Marketing Agency Agreement exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. However, as set out in the Letter from the Board, "TCL" brand TV products have historically been distributed through the sales team and distribution network of the Sales Company and the Combination Agreement does not entail the assignment of the distribution network of the Sales Company to TTE. We have discussed with the Directors and understand that it would take several years and significant expenses to develop a sophisticated distribution network comparable to that of the Sales Company, which covers more than 20,000 sales outlets in the PRC through 5 regional management offices, 27 regional branches and 168 sales offices. One of the main objectives of the Combination, therefore is to leverage on the sales and distribution network of the Sales Company in the PRC and it is crucial that the Company be able to do so over an undisturbed and extended period of time. The parties have therefore agreed to enter into the PRC Sales and Marketing Agency Agreement for a period of more than three years.

We also note that (i) the terms contained in the agreement are arrived at on arm's length negotiation, after taking into consideration all factors in connection with the establishment of TTE as a whole and the respective Transaction Documents; (ii) TTE can terminate the agreement if the Sales Company materially underperforms against sales and marketing plans in each semi-annual period; and (iii) TTE will enter into similar agreements with the Thomson Group in North America, Europe, Middle East and Africa with terms longer than three years.

Taking into consideration the terms of the agreement, the timing and commercial benefits to be brought by the sales network of the Sales Company in the respective regions, together with the pricing, termination mechanism, exclusivity and extent of services provided and the unique global nature of the Combination, which is beneficial to the Group as a whole, we concur with the view of the Directors that limiting the terms of this agreement to three years will prevent the Group from fully leveraging the established network of the Sales Company, and may potentially be detrimental to the interests of the Group. Accordingly, we consider it to be business practice for the Company in securing the PRC Sales and Marketing Agency Agreement for a maximum term of 20 years in order to minimise business disruption throughout the term of the agreement, which is in the interest of the Company and the Shareholders as a whole.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the PRC Sales and Marketing Agency Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

3. TCL Preferred Supplier Agreement

TTE shall enter into a TCL Preferred Supplier Agreement under which TTE shall appoint TCL Corp as one of the two preferred suppliers for certain components used in connection with the development, production or manufacture of TV end-products and shall give priority to TCL Corp for the supply of such components, except CRTs, as TCL Corp is not a supplier for CRTs. The agreement shall continue until, inter alia, the earlier of (a) the latest of (i) a period of three years from the date of the agreement; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three year term; (iii) the date on which the Company holds in aggregate less than 50% of its initial 67% stake of the total issued share capital of TTE; and (iv) should the Exchange Option be exercised, the date on which TCL Corp holds less than 50% of its initial percentage of the total issued share capital of the Company upon such exercise; or (b) 15 years from the date of the agreement. The principal terms of the TCL Preferred Supplier Agreement are summarised as follows:

(i) TTE shall use its reasonable efforts to make TCL Corp the most significant supplier in terms of volume for the components, provided that (a) TTE has certified such components regarding the quality, specifications, terms of supply and other attributes of supply; and (b) the components are of comparable product quality, specifications and reliability as offered by other suppliers; and

(ii) TCL Corp shall grant priority to TTE for orders placed by TTE for components over orders of other customers of TCL Corp provided such grant of priority will not cause TCL Corp to breach its obligations with other independent customers.

We understand from the Directors that the Company is currently sourcing certain raw materials from TCL Corp. The Directors consider that in order to secure a reliable source of supply (both in terms of quantity and quality) for components or integrated circuits, which are material components in the manufacturing of TV end-products, it is beneficial for TTE to continue to secure the supply of the components from TCL Corp. We have reviewed the agreement and note that TTE shall carry out its own sourcing activities in accordance with its normal sourcing procedure. In order to ensure the quality of the components, TTE shall issue quality certificate regarding the quality, specification, terms of supply and other attributes of the supply.

Pursuant to the agreement, we note that TTE shall only purchase the components from TCL Corp on the condition that the components are of comparable product quality, specification and reliability and on terms taken as a whole as competitive as those offered by other independent suppliers. Moreover, TCL Corp shall grant priority to TTE for orders placed by TTE for components over the orders placed by other customers without any additional cost. In terms of pricing of the components, the parties generally agree that all terms and conditions of each component contract shall be consistent with the relevant market and industry practices. In the event that the price and/or the terms of supply of the components of comparable product quality offered by other independent suppliers are more competitive, the Company shall have a right to request TCL Corp to adjust the component price and/or the terms of supply accordingly. Under this mechanism, TTE shall be able to secure a stable supply of components at a competitive market price.

We note that the TCL Preferred Supplier Agreement exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. Given that (i) the Company has existing sourcing arrangement from TCL Corp with similar terms, which approval has been obtained from the Independent Shareholders in November 2003; (ii) the components underlying the TCL Preferred Supplier Agreement are all related to the daily operation of TV manufacturing, which a continuous and steady supply is vital for the operation of TTE; (iii) TTE shall be treated as a preferred customer at no additional cost and be able to secure a stable supply of components at competitive market price; and (iv) TTE will enter into similar supply arrangement with Thomson, we concur with the view of the Directors that under this special circumstance and taking into consideration of the business joint venture as a whole, it justifies the TCL Preferred Supplier Agreement to have a period of duration longer than three years. Accordingly, with a long term nature of the supply agreement, the Company could minimise its exposure for any volatility in prices of the components and obtain a stable supply of quality components throughout the term of agreement. In this connection, we consider it to be business practice for the Company to enter into the TCL Preferred Supplier Agreement for a maximum term of 15 years, subject to the Company continuing to have a significant interest in TTE, in the form of at least 50% of its initial shareholding.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the TCL Preferred Supplier Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

4. Patent License Agreement — Color Television Receivers

TLSA will grant to the TTE Group a non-exclusive, non-transferrable and non-assignable, indivisible and non-sub-licensable license, right and privilege under all of the patents owned, controlled and/or acquired by TSLA during the term of the agreement to make, lease and sell analog colour television receivers for a period of five years. The agreement shall be automatically renewed for further five years unless and until terminated by either party by giving 6 months prior written notice before the expiration of any five years term.

We understand from the Directors that the Thomson Group is a patent holder of analog color television receivers that utilize CRTs (the "**Contract Apparatus**"). Being one of the major suppliers of CRTs in the world, Thomson receives royalty payments with respect to all units of

Contract Apparatus made, used, sold, leased or disposed of by any of its licensees. Based upon our discussion with the Directors, we note that (i) Thomson's patents are indispensable for TTE in the manufacture of TVs; and (ii) the royalty rates to be paid by TTE are consistent with rates offered by Thomson to other TV manufacturers and will be subject to variation in accordance with the country in which the color television receivers are manufactured.

We note that the Patent License Agreement — Color Television Receivers exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. Given that the terms contained in this agreement is a standard agreement to be entered into between TLSA and any licensee around the world, we are of the view that the terms of this agreement are consistent with market practice in respect of other color television receivers' patent licensing agreement granted by TLSA. In this connection, we consider normal business practice for this contract to be of such duration and concur with the view of the Directors that the Patent License Agreement — Color Television Receivers justifies to have a duration of five years.

Having considered the above as a whole, we are of the view that the basis in determining the royalty rates and the terms of the Patent License Agreement — Color Television Receivers are fair and reasonable in so far as the interest of the Independent Shareholders are concerned.

5. Receivables Purchase and Sales Agreement

As set out in the Letter from the Board, as no working capital associated with the Thomson TV Business will be contributed to TTE and to ensure the smooth running of TTE, Thomson has agreed to enter into the Receivables Purchase and Sales Agreement for a period of two years after Closing. We have reviewed the agreement and noted that Thomson shall purchase, during the period from the Closing to the second anniversary thereof, on a rolling basis, up to a maximum outstanding amount of €100 million (equivalent to approximately HK$940 million) of the trade receivables from TTE and its relevant subsidiaries and collect such receivables on behalf of TTE and its relevant subsidiaries.

Thomson shall purchase the trade account receivables from TTE at a discount to the book value of such receivables and the relevant discount rate shall be determined with reference to the average gross interest cost incurred in relation to the total financial debt as shown in Thomson's latest published annual or semi-annual financial statements for its principal amount of indebtedness outstanding for the most recent 6-month period covered by such financial statements.

We understand from the Directors that the net effect of such purchase is to provide additional working capital to TTE. We have reviewed the respective historical average cost of funding of the Company and Thomson. Based on the audited financial statements of Thomson for year ended 31 December 2003, Thomson's historical average cost of funding ranged from approximately 1.6% to 2.3%. Based on the audited financial results of the Company for year ended 31 December 2003, the Company's historical average cost of funding was approximately 3.1% to 4.4%. We note that both the Company and Thomson are listed entities with established operational history. Although Thomson and the Company will contribute operational assets to TTE, as a newly established company and a subsidiary of the Company, we are of the view that it is highly probable that the cost of funding is likely to exceed its parent companies, which have solid business track records and credit ratings by international rating agency.

As set out in the Letter from the Board, we note that Thomson may use the Credits to set off its payment obligation in purchasing additional receivables (or any part thereof) from TTE Group under the agreement. We have discussed with the management and note that in view of the relative small amount of sales to the North America as compared to the aggregate sales of the Company, the Company currently adopts a credit period of approximately 60 days for sales in the North America. In view of the increase in the sales volume of TV products in the North America upon the establishment of TTE, and depending on the nature of the products, TTE will adopt a credit policy of 30 to 60 days for sales made in the North America. As Thomson will only transfer back to TTE the non-collectable trade account receivables within 45 days after the due date, Thomson is in essence providing TTE funding for the relevant credit period of approximately 30 to 60 days at the average cost of funding for the most recent 6-month period covered by such financial statements.

Given a comparatively lower cost of funding provided to TTE by Thomson as a result of this agreement, we concur with the view of the Directors that the Receivables Purchase and Sales Agreement is fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

6. North America Sales and Marketing Agency Agreement

TTE shall appoint Thomson Inc. as its exclusive agent to provide after sales, management, marketing, sales and logistics services with respect to all TV end-products in the USA and Canada; and TV end-products bearing trademarks licensed from Thomson in Mexico (the "**Scope of Services**"). The agreement shall, inter alia, continue until the earlier of (a) the latest of: (i) five years from the date of the agreement; (ii) such date as may be agreed by the parties in writing upon renewal of the agreement; and (iii) the date on which Thomson Group holds in aggregate less than 50% of the initial total issued share capital of TTE or the Company (upon the exercise of the Exchange Option); or (b) 20 years from the date of the agreement.

We have reviewed the agreement and noted that none of Thomson Inc. and its affiliates may generally, directly or indirectly engage in any business activities that is competing within the Scope of Services, save and except for certain limited existing TV related business of Thomson Inc.. We also note that TTE shall not engage in, or contract a third party to engage in, any business activities within the Scope of Services, except that TTE may sell and market (i) products as an OEM manufacturer for other customers; and (ii) private label products provided that such business activities do not have an adverse impact on the sales of "Thomson" or "RCA" brand TV products in the USA, Canada and Mexico, and TTE shall seek to utilize the resources of Thomson Inc. with respect to such activities.

As noted in the Letter from the Board, as a result of the combination of the TV businesses of the Group and the Thomson Group, the Group can leverage on the wide geographical market coverage of the Thomson Group to expand and gain further access to the American and European markets. We understand from the Directors that the Thomson Group has an established sales and marketing network in North America and the terms of the sales and marketing agency agreement have been determined with reference to the alternative of the Group in setting up a similar network with such an extensive market coverage on its own, taking into account the time and costs involved. By entering into the agreement, it will enable TTE to gain immediate access to North America via Thomson Group's existing distribution network and will provide immediate commercial benefits to the Group.

We understand from the Directors that the overall commission is determined by reference to the salary, administration, advertisement and transportation charges borne by Thomson Inc. in the provision of the services. We have reviewed the agreement and noted that TTE shall pay (i) a base commission; (ii) a margin incentive commission; and (iii) a performance incentive commission to Thomson Inc..

We note that the base commission payable by TTE to Thomson Inc. shall be determined as a percentage of the projected cost of Thomson Inc. in providing these services, subject to adjustment by the ratio of actual sales to target sales. We understand that the percentage for the first five years is set at 100%, under which Thomson Inc. is entitled to receive its projected cost if the actual sales is equal to the target sales. For example, in the event that the actual sales exceeds the target sales by 10%, the base commission will be 110% of the projected cost of Thomson Inc.. Likewise, if the actual sales falls short of the target sales by 10%, TTE shall pay 90% of the projected cost to Thomson Inc.. After the first five years, the base commission will be 105% of the projected cost of Thomson Inc., subject to adjustment by the ratio of the actual sales to target sales. We understand that the calculation of the projected cost of Thomson Inc. has to be mutually agreed between TTE and Thomson Inc..

Moreover, Thomson Inc. is entitled to receive from TTE a 3% margin incentive commission (which the relevant percentage will be 103% for the first five years) if the overall gross margin of the TV products sold in the USA, Canada and Mexico exceeds the overall gross margin of the TV products sold world-wide. This incentive margin commission is aimed at giving Thomson Inc. an incentive to promote the sale of TV end-products in the territories where Thomson Inc. is appointed as the exclusive agent. The margin incentive commission has been waived for the first two years of the agreement. TTE may however, at its sole discretion, offer Thomson Inc. a performance incentive commission at a commission rate to be determined by TTE.

We have reviewed the gross profit margin (which, we consider, is similar to the base commission rate charged under the sales and marketing agency agreement) of the Comparable Companies. Based on the published audited accounts for the financial year 2003, the gross profit margin of the Comparable Companies ranges from approximately 14.5% to 16.7%. Given (i) the base commission payable by TTE will be at cost for the first five years, subject to adjustments as mentioned above; (ii) the margin incentive commission payable by TTE to Thomson Inc. is lower than the range of gross profit margin of the Comparable Companies; (iii) commission payment will only increase proportionately with the increase in sales if Thomson Inc. is able to outperform the sales target; (iv) TTE shall only pay part of Thomson Inc.'s projected costs if the actual sales through Thomson Inc. underperforms the sales target; and (v) the margin incentive commission and the performance incentive commission are to provide an incentive to Thomson Inc. to promote, not only the sales volume of TVs, but also the sales of TV end-products with a higher profit margin, we are of the view that the overall commission payment to Thomson Inc. is fair and reasonable in so far as the Independent Shareholders are concerned.

We note that the North America Sales and Marketing Agency Agreement exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. However, given that (i) this agreement is inextricably linked with the Thomson Trademark License Agreement, which has a term of 20 years and under which the royalty rate for Thomson A Brands (as defined below) and Thomson B Brand (as defined below) products will increase by 0.5% and 0.25% respectively upon termination of this agreement. Any increase in royalty payments will directly reduce the Company's profitability and will not be in the interest of the Company and its

Shareholders; (ii) the Company has managed to negotiate a fee structure under which Thomson Inc. will effectively provide sales and distribution services at cost to TTE for the first two years, and continuously waive the base commission margin over cost for the subsequent three years; which would not be possible if the duration of the agreement is limited to only three years; and (iii) TTE could terminate the agreement if Thomson Inc. materially underperforms against sales and marketing plans in every semi-annual period, the parties have agreed to enter into the North America Sales and Marketing Agency Agreement for a period of more than three years.

As set out in the Letter from the Board, Thomson TV products have historically been distributed through the sales team and distribution network of Thomson Inc. and that the Combination Agreement does not entail the assignment of the Thomson Inc's distribution network to TTE. We have discussed with the Directors and understand that Thomson Group has an operating history of several decades and the distribution networks and customer relationships in the North America have been built by Thomson over the course of many years. Moreover, we understand that Thomson Inc.'s sales network in the North America has an extensive coverage reaching approximately 220 distributors and over 10,000 retail outlets, as well as expertise in brand management, market intelligence, sales and logistics management of TV products in this market. One of the main objectives of the Combination is to leverage on these strengths of Thomson Inc. in the North America, and it is crucial that the Company be able to do so over an undisturbed and extended period of time. If the agreement were limited to a term of three years, the Company would need to incur significant expenditure and risk in establishing its own distribution network in a market in which the Company has no significant experience. We also understand that the terms contained in the agreement are arrived at on arm's length negotiation, after taking into consideration all factors in connection with the establishment of TTE as a whole and the respective Transactions Documents.

Taking into consideration the terms of the agreement, the timing and commercial benefits to be brought by the sales network of Thomson Inc. in the regions, together with the pricing, termination mechanism, exclusivity and extent of services provided and the unique global nature of the Combination, which is beneficial to the Group as a whole, we concur with the view of the Directors that limiting the terms of this agreement to three years will prevent the Group from leveraging the benefits of Thomson Inc.'s network, and may potentially be detrimental to the interests of the Group. On the other hand, with a longer term sales and marketing agreement, the Company could secure its global footprint, minimise the uncertainty and expenditure associated with planning for its own sales network in places with which it has limited familiarity and benefit during the term of the agreement from the extensive distribution network which has been built by Thomson Group over a considerable period of time. In this connection, we consider it to be business practice for the Company to enter into the North America Sales and Marketing Agency Agreement with a maximum term of 20 years, subject to Thomson continuing to have a significant interest in TTE, in the form of at least 50% of its initial shareholding.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the North America Sales and Marketing Agency Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

7. Europe, Middle East and Africa Sales and Marketing Agency Agreement

TTE shall appoint Thomson as its agent, depending on the territory, an exclusive or non-exclusive agent to provide after sales, management, marketing, sales and logistics services with respect to all TV end-products in Europe, the Middle East and Africa (the "**Scope of Services**"). The agreement shall, inter alia, continue until the earlier of (a) the latest of: (i) five years from the date of the agreement; (ii) such date as may be agreed by the parties in writing upon renewal of the agreement; and (iii) the date on which Thomson Group holds in aggregate less than 50% of the initial total issued share capital of TTE or the Company (upon the exercise of the Exchange Option); or (b) 20 years from the date of the agreement.

We have reviewed the agreement and noted that save and except for certain limited existing TV related business of Thomson, none of Thomson and its affiliates may generally, directly or indirectly engage in any business activities that is competing within the Scope of Services. We also note that TTE shall not engage in any business activities within the Scope of Services, except that TTE may sell and market (i) products as an OEM manufacturer for other customers; and (ii) private label products provided that such business activities do not have an adverse impact on the sales of "Thomson" or "RCA" brand TV products in Europe, the Middle East and Africa, and TTE shall seek to utilize the resources of Thomson with respect to such activities.

As noted in the Letter from the Board, as a result of the combination of the TV businesses of the Group and the Thomson Group, the Group can leverage on the wide geographical market coverage of the Thomson Group to expand and gain further access to the North American and European markets. We understand from the Directors that the Thomson Group has sales and marketing networks in Europe, the Middle East and Africa and the terms of the sales and marketing agency agreement have been determined with reference to the alternative of the Group in setting up a similar network with such an extensive market coverage on its own, taking into account the time and costs involved. By entering into the agreement, it will enable TTE to gain immediate access to the European, Middle East and African markets via Thomson Group's existing distribution network and will provide immediate commercial benefits to the Group.

We understand from the Directors that the overall commission is determined by reference to the salary, administration, advertisement and transportation charges borne by Thomson in the provision of the services. We have reviewed the agreement and noted that TTE shall pay (i) a base commission; (ii) a margin incentive commission; and (iii) a performance incentive commission to Thomson.

We note that the base commission payable by TTE to Thomson shall be determined based on a percentage of the projected cost of Thomson in providing these services, subject to adjustment by the ratio of actual sales to target sales. We understand that the percentage for the first five years is set at 100%, under which Thomson is entitled to receive its projected cost if the actual sales is equal to the target sales. For example, in the event that the actual sales exceeds the target sales by 10%, the base commission will be 110% of the projected cost of Thomson. Likewise, if the actual sales falls short of the target sales by 10%, TTE shall pay 90% of the projected cost to Thomson. After the first five years, the base commission will be 105% of the projected cost of Thomson, subject to adjustment by the ratio of the actual sales to target sales. We understand that the calculation of the projected cost of Thomson has to be mutually agreed between TTE and Thomson.

Moreover, Thomson is entitled to receive from TTE a 3% margin incentive commission (which the relevant percentage will be 103% for the first five years) if the overall gross margin of the TV products sold in Europe, Middle East and Africa exceeds the overall gross margin of the TV products sold world-wide. The margin incentive commission has been waived for the first two years of the agreement. TTE may, however, at its sole discretion, offer Thomson a performance incentive commission at a commission rate to be determined by TTE.

We have reviewed the gross profit margin (which, we consider, is similar to the base commission rate charged under the sales and marketing agency agreement) of the Comparable Companies. Based on the published audited accounts for the financial year 2003, the gross profit margin of the Comparable Companies ranges from approximately 14.5% to 16.7%. We note that the mechanism for determining the commission has been arrived at on arm's length negotiation between Thomson and TTE. Given that (i) the base commission payable by TTE will be at cost for the first five years, subject to adjustments as mentioned above; (ii) the margin incentive commission payable by TTE to Thomson is lower than the range of gross profit margin of the Comparable Companies; (iii) commission payment will only increase proportionately with the increase in sales if Thomson is able to outperform the sales target; (iv) TTE shall only pay part of Thomson's projected costs if actual sales through Thomson under-performs the sales target; and (v) the margin incentive commission and the performance incentive commission are to provide an incentive to Thomson to promote, not only the sales volume of TVs, but also the sales of TV end-products with a higher profit margin, we are of the view that the overall commission payment to Thomson is fair and reasonable in so far as the Independent Shareholders are concerned.

We note that the Europe, Middle East and Africa Sales and Marketing Agency Agreement exceeds the three-year term as set out in Rule 14A.35 of the Listing Rules. However, given that (i) this agreement is inextricably linked with the Thomson Trademark License Agreement, which has a term of 20 years, and under which the royalty rate for Thomson A Brands (as defined below) and Thomson B Brand (as defined below) products will increase by 0.5% and 0.25% respectively upon termination of this agreement. Any increase in royalty payment will increase the payments will directly reduce the Company's profitability, which will not be in the interest of the Company and its Shareholders; (ii) the Company has managed to negotiate a fee structure under which Thomson will effectively provide its services at cost for the first two years, and will continuously waive its base commission margin over cost for the subsequent three years, which would not be possible if the duration of the agreement is limited to only three years; and (iii) TTE could terminate the agreement if Thomson materially underperforms against sales and marketing plans in every semi-annual period, the parties have agreed to enter into the Europe, Middle East and Africa Sales and Marketing Agency Agreement for a period of not more than three years.

As set out in the Letter from the Board, Thomson TV products have historically been distributed through the sales team and distribution network of Thomson and the Combination Agreement does not entail the assignment of the Thomson's distribution network to TTE. We have discussed with the Directors and understand that Thomson Group has an operating history for several decades and the distribution networks and customer relationships have been built by Thomson over the course of many years. One of the main objectives of the Combination is to leverage on the sales and distribution network of Thomson in Europe, Middle East and Africa, and it is crucial that the Company be able to do so over an undisturbed and extended period of time. If the agreement was limited to three years, the Company would need to incur significant expenditure and risk in establishing its own distribution network markets where the Company has no significant experience. In particular, the markets covered under this agreement are more fragmented and it may prove to be more costly for the Company to establish a new distribution network. We also understand that the terms contained in the agreement are arrived at on arm's length negotiation, after taking into consideration all factors in connection with the establishment of TTE as a whole and the respective Transactions Documents.

Taking into consideration the terms of the agreement, the timing and commercial benefits to be brought by the sales network of Thomson in the respective regions, together with the pricing, termination mechanism, exclusivity and extent of services provided and the unique and global nature of the Combination, which is beneficial to the Group as a whole, we concur with the view of the Directors that limiting the term of this agreement to three years will prevent the Group from leveraging the benefits of Thomson's network and may potentially be detrimental to the interests of the Group. On the other hand, with a longer term sales and marketing agreement, the Company could secure its global footprint, minimise the uncertainty and expenditure associated with planning for its own sales network in different continents with which it has limited familiarity and benefit during the term of the agreement from the extensive distribution network which has been built by Thomson Group over a considerable period of time. In this connection, we consider it to be business practice for the Company to enter into the Europe, Middle East and Africa Sales and Marketing Agency Agreement with a maximum term of 20 years, subject to Thomson continuing to have a significant interest in TTE, in the form of at least 50% of its initial shareholding.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the Europe, Middle East and Africa Sales and Marketing Agency Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

8. Thomson Trademark License Agreement

Thomson shall grant to TTE Group a non-sublicensable and non-transferable license to use certain of its registered trademarks, including "Thomson", "RCA", "Scenium", "LiFE" ("**Thomson A Brands**") and "SABA" ("**Thomson B Brand**"), for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. The agreement is for a period of 20 years unless terminated in accordance with the terms of the agreement.

Pursuant to the Thomson Trademark Licence Agreement, TTE shall not be required to pay any royalty to Thomson prior to the second anniversary of the Closing Date. Thereafter, the royalties payable shall be linked to the performance of the TTE Group and calculated by reference to the net sales of TV products and the applicable royalty rates. The applicable rates will be 0.5%, 1% or 2% for Thomson A Brands and 0.25%, 0.5% or 1% for Thomson B Brand, if the 12-months EBIT percentage of the TTE Group is less than 3%, equal to 3% but less than 6% and is equal to or over 6%, respectively.

In addition to the royalty payment, TTE will have to reimburse Thomson for the general brand advertising costs incurred by Thomson during the term of the agreement with the general branding fund, subject to a minimum of 0.5% of the aggregate annual net sales of TV products using the Thomson A Brands in the relevant territories for the previous fiscal year.

We have discussed with the Directors and noted that "RCA" Brand and the "Thomson" Brand are well recognised brands in the market, with approximately 10.9% and approximately 8% market share in the USA and Europe, respectively, in 2003. As set out in the Letter from the

Board, the objective of the combination of the TV businesses between the Group, TCL Corp and the Thomson Group is to create a world leading TV company. Amongst the brands owned or controlled by the Thomson Group, the “Thomson” brand and the “RCA” brand from Thomson are vital to the continuing development of the TV business of the Group. We understand a similar trademark licence agreement will be entered into between TTE and TCL Corp, with the same agreement duration and similar terms.

We have reviewed the EBIT margin of the Comparable Companies whose principal businesses are engaged in the manufacture and sales of TV. Based on the published audited accounts for the financial year 2003, the EBIT margin of the Comparable Companies ranges from approximately 0.9% to 3.4% and an average of approximately 1.8%.

Given that (i) TTE is not required to pay any royalty for the first two years; (ii) the applicable royalty rate payable by TTE to Thomson is on an escalating scale, ranging from a minimum of 0.25% to a maximum of 2%, and taking into account that TTE is required to pay a higher royalty rate in the event of an increase in the EBIT percentage; and (iii) the EBIT margin applied as a reference to the applicable royalty rate charged by Thomson is above the range of the EBIT margin of the Comparable Companies, we are of the view that the applicable royalty rate charged by Thomson is fair and reasonable in so far as the Independent Shareholders are concerned.

Based on our review of publicly available information, no information on advertising expenses alone is separately available. As set out in the Letter from the Board, Thomson shall conduct brand promotion and marketing of the licensed trademarks in the ordinary course of business. We have reviewed the agreement and noted that procedures are in place for TTE and Thomson to meet and discuss next year’s budget plan for the general brand advertising campaign prior commencement of each calendar year. In addition, Thomson shall submit a proposed budget to TTE on the general brand advertising two months prior commencement of each relevant fiscal semester and a subsequent report evidencing that advertising is conducted in accordance with the approved budget. As additional general brand awareness advertising costs for Thomson A Brands, Thomson shall reinvest the 0.5% trademark license fees payable by the TTE Group to Thomson in respect of Thomson A Brands products for the period from the second anniversary to the fifth anniversary after Closing. Based on our discussion with the Directors, and taking into consideration the “Thomson” and “RCA” brands world-wide, we consider that the reimbursement of the general branding fee to Thomson is fair and reasonable in so far as the Independent Shareholders are concerned.

We note that the Thomson Trademark License Agreement is for a term of 20 years, which exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. However, we understand from the Directors that the establishment of TTE is a commitment from the Company, TCL Corp and the Thomson Group to combine their respective TV businesses in the PRC, USA and Europe, in which all parties are subject to lock-up periods in the shareholdings in TTE. One of the main objectives in entering into of the joint venture is to leverage on the “Thomson” and “RCA” brands in Europe and in USA, which the Directors considered as one of the key assets attaching to the joint venture. We note that leveraging on the success of well-known brands is one of the most commonly used business strategy to further develop and explore new markets by a company. Given that (i) TTE will (apart from OEM products), mainly manufacture and sell different TV brands owned by the TCL Corp and Thomson; and (ii) Thomson shall reinvest 0.5% trademark license fees payable by the TTE Group to Thomson in respect of Thomson A Brands products for the period from the second anniversary to the fifth anniversary after Closing as additional general brand awareness advertising costs, we concur with the view of the Directors that limiting the term of this agreement to three years will be harmful to the interests of the Company and its Shareholders as a whole because the Group will not be able to fully extract and utilize the goodwill of the "Thomson", "RCA" and other licensed brands, which will otherwise require a significant amount of additional investment to develop new brands for those markets.

Based on our review of recent publicly available information on Hong Kong listed companies, we note that duration of intellectual property agreements used to have a term of longer than three years. In this connection, we concur with the view of the Directors that it is beneficial for the Company to enter into the Thomson Trademark License Agreement for a longer duration in order to enable the Group to continue the distribution of such branded products without unnecessary interruption. Moreover, as the Combination Agreement does not entail the assignment of the Thomson A Brands and Thomson B Brand trademarks, which is material in the context of TTE, we consider it to be normal business practice for the Company to secure this agreement with a maximum term of 20 years.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the Thomson Trademark License Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

9. Thomson Preferred Supplier Agreement

TTE shall enter into the Thomson Preferred Supplier Agreement under which TTE shall appoint Thomson, together with TCL Corp, as one of the two preferred suppliers of the components and shall give priority to Thomson for the supply of the components. The agreement shall continue, inter alia, until the earlier of (a) the latest of (i) a period of three years from date of execution; (ii) the date as may be agreed by the parties upon renewal of the agreement; (iii) the date on which Thomson holds in aggregate less than 50% of the initial 33% of the total issued share capital of TTE or should the Exchange Option be exercised, the initial percentage of the total issued share capital of the Company issued to Thomson upon such exercise; or (b) 15 years from the date of the agreement. The principal terms of the Thomson Preferred Supplier Agreement are summarised as follows:

(i) TTE shall use its reasonable efforts to make Thomson the most significant supplier in terms of volume for the components, provided that (a) the components are of comparable product quality, specifications and reliability and on terms taken as a whole as competitive as those offered by other independent third party suppliers; and (b) TTE has certified such components regarding the quality, specification, terms of supply and other attributes of supply; and

(ii) Thomson shall grant priority to TTE for orders placed by TTE for the components over the orders placed by other customers of Thomson provided such grant of priority will not cause Thomson to breach its obligations with other customers.

We understand from the Directors that there are few CRT suppliers in the world and Thomson is one of the key suppliers. Moreover, the Company is currently purchasing CRT, one of the key components of TV end-products, from Thomson for its TV manufacturing. We further understand from the Directors that the supply of CRT could be volatile and in order to secure a stable and reliable supply, both in terms of quantity and quality at all times, including peak seasons such as Christmas and Thanksgiving or special global events such as the Olympics or the World Cup, it is beneficial for TTE to continue to secure the supply of the components from the Thomson Group.

We have reviewed the agreement and noted that TTE shall carry out its own sourcing activities in accordance with its normal sourcing procedure and in order to ensure the quality of the components, TTE shall issue quality certificate regarding quality, specification, terms of supply and other attributes of the supply.

Pursuant to the agreement, we note that TTE shall only purchase the components from Thomson on the condition that the components are of comparable product quality, specification and reliability and on terms taken as a whole as competitive as those offered by other independent suppliers. Moreover, Thomson shall grant priority to TTE for orders placed by TTE for components over the orders placed by other customers without any additional cost.

In terms of pricing of the components, the parties generally agree that all terms and conditions of each component contract shall be consistent with the relevant market and industry practices. In the event that the price and/or the terms of supply of the components of comparable product quality offered by other independent suppliers are more competitive, the Company shall have a right to request Thomson to adjust the component price and /or the terms of supply accordingly. Under this mechanism, TTE shall be able to secure a stable supply of components at a competitive market price.

We note that the Thomson Preferred Supplier Agreement exceeds the three year term as set out in Rule 14A.35 of the Listing Rules. Given that (i) the Company is currently sourcing CRTs and other components from Thomson; (ii) the supply of CRTs underlying the Thomson Preferred Supplier Agreement are material component for manufacturing of TVs, which a continuous and steady supply is vital for the operation of TTE; (iii) TTE shall be treated as a preferred customer at no additional cost and TTE shall be able to secure a stable supply of CRTs at competitive market price; and (iv) TTE will enter into similar supply arrangement with TCL Corp, we concur with the view of the Directors that under this special circumstance and taking into consideration of the business joint venture as a whole, it justifies the Thomson Preferred Supplier Agreement to have a period of duration longer than three years. Accordingly, with a long term nature of the supply agreement, the Company could minimise its exposure for any volatility in CRT prices and maintain a stable supply of quality components from a major supplier of CRTs in the world throughout the term of agreement. In this connection, we consider it to be business practice for the Company to enter into the Thomson Preferred Supplier Agreement for a maximum term of 15 years, subject to Thomson continuing to have a significant interest in TTE, in the form of at least 50% of its initial shareholding.

Having considered the above as a whole, we are of the view that the basis in determining the terms of the Thomson Preferred Supplier Agreement are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

10. Agreement Relating to Thomson Television Angers

As set out in the Letter from the Board, Thomson's Angers Factory will not form part of the Thomson TV Business to be contributed to TTE. The parties have agreed to make certain arrangements for the reorganisation of the Angers Factory and to engage the production capacity of Angers Factory for production of high-end TV products and their sub-assemblies and modules for sale primarily in Europe. TTE shall, pursuant to the agreement, purchase (i) certain assets as listed in the agreement for a consideration of €1 (equivalent to approximately HK$9.4); (ii) raw materials for and work-in-progress generated by New Assets; and (iii) certain models of TV end-products from the Angers factory for sale in Europe over a five year period. The agreement shall continue in force until the earliest of (i) the full implementation of the intended reorganisation; (ii) termination by either party due to a material breach; and (iii) five years from date of this agreement, provided that the terms of the agreement may be extended by mutual agreement.

We understand that one of the objectives of the Combination is to transfer Thomson's entire TV business to TTE. The Directors are of the view that it is not in TTE's interest to acquire the assets and personnel associated with Thomson's Angers Factory due to higher operating cost than the rest of Thomson's TV business in Europe. However, Thomson cannot use the TV manufacturing facilities at Angers for its own benefit since it is bound by a non-compete agreement under which it is prohibited from competing with TTE in TV manufacturing business. As such, the parties agreed to retain the Angers Factory and TTE will utilize Angers Factory as a subcontractor for a period of five years, which shall give Thomson time to reorganise its operations at the Angers Factory. Pursuant to the agreement, we note that the net effect of the pricing formula in relation to the purchase of TV end-products from the Angers Factory is that TTE shall not suffer any loss nor make any profit.

Moreover, during the reorganisation of the Angers Factory's existing TV operation and the engaging of the production capacity for high-end products, Thomson may acquire New Assets up to €8 million (approximately HK$75.2 million) to continue production at the Angers Factory. To the extent that the New Assets shall no longer be used by the Angers Factory for TV production prior to the completion of the intended organisation, TTE shall purchase from Thomson the New Assets for a nominal consideration of €1 (approximately HK$9.4) and the raw materials for and work-in-progress generated by the New Assets on the same basis as set out in the Thomson Preferred Supplier Agreement. Should the fair market value of the New Assets to be transferred from the Angers Factory be less than €8 million (approximately HK$75.2 million), Thomson shall transfer cash to TTE to make up the shortfall. In essence, TTE can benefit from €8 million in value of New Assets for a nominal consideration of €1.

We have been informed by the Directors that (i) the entering into of this agreement forms part of the Combination between the Company and Thomson, on the basis that Thomson will be responsible for any restructuring cost associated with the Angers Factory; (ii) this agreement will provide immediate benefits to the Company by enabling the Company to acquire additional assets at nominal value and have additional TV manufacturing capabilities for high-end TV products in Europe; and (iii) the terms in the agreement are arrived at on arm's length negotiation, after taking into consideration all factors in connection with the establishment of TTE as a whole.

In view of (i) the inter-related nature of this agreement with the Combination, which is an integrated part of the overall arrangement between the Company and Thomson; (ii) the Directors' view of the reorganisation timetable, which is not expected to be completed within three years; and (iii) the five years lock-up period (subject to transfer restrictions imposed from and after the third anniversary of the Closing Date) of the Company and Thomson, we concur with the view of the Directors that the duration of this agreement justifies a period longer than three years and consider it to be business practice for the duration of the agreement to be five years, which is in line with the anticipated reorganisation timetable. Having considered the above as a whole, we are of the view that the basis in determining the terms of the Agreement relating to Thomson Television Angers are fair and reasonable in so far as the interests of the Independent Shareholders are concerned.

F. PROPOSED ANNUAL MONETARY LIMITS FOR THE RELEVANT CONTINUING CONNECTED TRANSACTIONS

Each type of the Relevant Continuing Connected Transactions will be subject to, among other things, the relevant annual monetary limit in each of the financial year ended 31 December 2006. As stated in the Letter from the Board, the Company proposes to set the following annual monetary limit for each of these categories of Relevant Continuing Connected Transactions for the Group:

	Proposed annual monetary limit in each of the financial year ended 31 December		
Agreement	**2004**	**2005**	**2006**
		(HK$ million)	
Patent License Agreement — Color Television Receivers	136	284	330
Receivables Purchase and Sales Agreement	940	940	470
Thomson Trademark License Agreement	106	194	419
North America Sales and Marketing Agency Agreement	805	1,352	1,418
Europe, Middle East and Africa Sales and Marketing Agency Agreement	798	1,320	1,409
Agreement relating to Thomson Television Angers	1,432	2,863	2,863
Thomson Preferred Supplier Agreement	5,625	11,572	13,429
TCL Trademark License Agreement	56	121	285
PRC Sales and Marketing Agency Agreement	802	1,703	1,938
TCL Preferred Supplier Agreement	1,595	5,543	10,104

In determining whether the above annual monetary limits proposed by the Company is fair and reasonable in so far as the Independent Shareholders are concerned, we have discussed with the Directors the basis for setting the respective annual monetary limits for the above Relevant Continuing Connected Transactions.

As a result of the Combination, the Company will enter into various Operation Agreements with Thomson and TCL Corp to facilitate the future running of TTE. Save and except for transactions to be entered into with TCL Corp, all transactions with Thomson under the Relevant Continuing Connected Transactions are new to the Company with no historical figures which are readily ascertainable from published information of the Company.

We have reviewed and noted that the proposed monetary limit in 2005 for most of the Relevant Continuing Connected Transactions increased by almost 100% as compared to the monetary limit in 2004. As discussed with the Company's management, as the Closing of the Combination Agreement is expected to be in July 2004, TTE is expected to commence business in July 2004. The projected monetary limit in 2004 covers only the second half of 2004 (i.e. on a 6-month basis). As informed by the Company's management, generally, business in the second half of each calendar year reflects a better result than the first half of the calendar year due to the effect of seasonality (e.g. Thanksgiving and Christmas are in the second half of the calendar year). The direct comparison of the proposed monetary limit in 2005 as to the annualised monetary limit in 2004 would be somehow misleading and distorted by the effect of seasonality.

To assess whether the basis of the annual monetary limit is fair and reasonable, we have reviewed the following factors:

1. Patent License Agreement — Color Television Receiver

The monetary limits for the Patent License Agreement — Color Television Receiver are calculated with reference to the predetermined royalty rates applicable in different countries multiplying the internal projection of the number of televisions manufactured by TTE over the next few years. We have reviewed the internal projection and understand from the Directors that the projection reflects an increase in the number of televisions to be manufactured and sold by TTE (based on the aggregate number of televisions sold by Thomson TV Business and the Company of approximately 15.5 million and 18.5 million in the financial year 2002 and 2003 respectively), taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing. We have reviewed the general market trend for TVs over the next few years, taking into consideration events such as the Euro Cup and the Olympics in 2004, which will stimulate the demand for TVs and will have a positive impact on the number of TV sold by TTE. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

2. Receivables Purchase and Sales Agreement

The monetary limits for the Receivables Purchase and Sales Agreement are calculated with reference to the maximum outstanding amount of trade receivables to be purchased by Thomson pursuant to this agreement. Thomson shall, for a period of two years upon Closing, to purchase trade account receivables from TTE, on a rolling basis, up to a maximum outstanding amount of €100 million (equivalent to approximately HK$940 million) to fund its working capital. Such relevant amount shall, from the first anniversary of Closing, be reduced by $\frac{1}{12}$ at the end of each month so that it shall, at the second anniversary of Closing, be zero. As set out in the Letter from the Board, the Directors expected Closing to be around July 2004. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

3. Thomson Trademark License Agreement

The monetary limits for the Thomson Trademark Licence Agreement are calculated with reference to (i) an increase in the projected sales in the business of Thomson A Brands and Thomson B Brand TV products of TTE Group over the next few years; (ii) the highest applicable royalty rates (i.e. 2% for Thomson A Brands and 1% for Thomson B Brand TV products) in case the EBIT margin of the TTE Group will exceed the maximum 6%; (iii) no royalty payment shall be payable prior to the second anniversary of Closing and (iv) internal budgeting on general advertising costs.

We understand from the Directors that such increase in sales is based on the operational synergies driven by (a) global presence advantage; (b) comprehensive product range, (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale follow Closing. We have reviewed the projections taking into account (i) the aggregate sales of Thomson A Brands and Thomson B Brand; (ii) the general brand advertising costs of Thomson of approximately €19 million (approximately HK$179 million) in 2003; and (iii) the general market trend of TV sales over the next few years. We find that TTE's projected annualised percentage increase in TV sales of approximately 24%, 2% and 14% and the projected annualised percentage increase in Thomson's aggregate sales in North America and Europe of approximately 14%, (9%) and 10% in the next 3 years is in line with the growth of industry forecasts. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

4. North America Sales and Marketing Agency Agreement and Europe, Middle East and Africa Sales and Marketing Agency Agreement

The monetary limits for the North America Sales and Marketing Agency Agreement and the Europe, Middle East and Africa Sales and Marketing Agency Agreement are calculated with reference to the Company's (i) internal budgeting on aggregate regional sales and marketing costs of Thomson TVs (based on the selling and marketing costs of Thomson TV for year 2003 of approximately €225 million (approximately HK$2,115 million); (ii) internal projection on the aggregate regional sales target of Thomson TV products in the USA and Europe, respectively; (iii) projected sales in each of the forthcoming years will exceed pre-determined sales target and (iv) the payment of a 3% margin incentive commission after the second anniversary of Closing.

We have reviewed the projections taking into account (i) the sales of Thomson TVs in the North America in the past 2 years of approximately HK$9.4 billion and HK$7.3 billion in year 2002 and 2003 respectively, which we understand from the management that such decrease was mainly attributable to the fluctuation of exchange rate and competition from TV manufacturers from the Asian markets, and (ii) the sales of Thomson TVs in Europe in the past 2 years of approximately HK$7.7 billion and HK$8.1 billion in year 2002 and 2003 respectively. We find that TTE's aggregate projected annualised percentage increase in TV sales in North America and Europe of approximately 14%, (9)% and 10% in the next 3 years is in line with the growth of industry forecast. Based on the foregoing, we are of the view that the annual monetary limit under each of the agreement is reasonable in so far as the Independent Shareholders are concerned.

5. Agreement relating to Thomson Television Angers

The monetary limits for the Agreement relating to Thomson Television Angers are determined with reference to (i) projected increase in sales of the Angers Factory (based on the historical sales of approximately €213 million (approximately HK$2,002 million) from the financial year 2003); and (ii) the reorganisation of the Angers Factory's TV operation. A projected increase is based on the projected growth of sales of TV in Europe, in particular, which will be stimulated by the upcoming Euro Cup in Portugal and the Olympics Games in Athens in the second half of 2004. The Directors do not expect any future sale from Angers

Factory will exceed the 2004 projected figures. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

6. Thomson Preferred Supplier Agreement

The monetary limits for the Thomson Preferred Supplier Agreement are calculated with reference to (i) the budget requirement of the TTE Group in terms of expenditure on raw materials, in particular CRTs; and (ii) projected increase in the sales of TV products by the TTE Group, taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range, (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing. We have reviewed the projections taking into account (i) the aggregate sales of Thomson TVs and the Company TVs in the past 2 years of approximately HK$30.1 billion and HK$28.5 billion in 2002 and 2003 respectively; and (ii) the general market trend of analog TV sales over the next few years. We have discussed with the Directors and understand that substantial increase in sales has been derived from emerging markets in the first quarter of 2004 and the Directors believed such sales from emerging markets will continue to grow substantially in the next few years. In this connection, we find that TTE's projected annualised percentage increase in TV sales of 24%, 2% and 14% in the next 3 years is in line with the growth of industry forecasts. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

7. TCL Trademark License Agreement

The monetary limits for the TCL Trademark Licence Agreement are calculated with reference to (i) an increase in the projected sales in the business of its TCL A Brand and TCL B Brands TVs of the TTE Group over the next few years; (ii) the highest applicable royalty rates (i.e. 1.5% for TCL A Brand and 0.75% for TCL B Brands TV products) in case the EBIT margin of TTE will exceed the maximum 6% every year; (iii) no royalty payment shall be payable prior to the 2nd anniversary of the Closing; and (iv) internal budgeting on general brand advertising costs. We understand from the Directors that such increase in sales is based on the operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing.

We note that the Company has an existing trademark license agreement with TCL Corp for no consideration.

We have reviewed the projections taking into account (i) the quantity of TV sales of the Company in the past 2 years of approximately 8.3 million and 11.65 million sets in 2002 and 2003 respectively, and (ii) the general trend of the TV industry in the respective markets in the next few years. As discussed with the Company's management, we understand that substantial increase in sales will continue to be derived from emerging markets.

We have reviewed the Company's first quarter results announcement and note that an approximately 82% increase was recorded for TV products sold overseas in the first quarter of 2004, as compared to first quarter of 2003. In this connection, we find that the Company's projected annualised percentage increase in sales in the PRC and the emerging markets of approximately 37%, 14% and 18% in the next 3 years is in line with the growth of industry forecasts. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

8. PRC Sales and Marketing Agency Agreement

The monetary limits for the PRC Sales and Marketing Agency Agreement are calculated with reference to (i) the projected increase in the business volume of TTE in the PRC and the emerging markets following Combination; (ii) the maximum 10% base commission; and (iii) the payment of 2% performance incentive commission to Sales Company, taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing.

We note that the Company has an existing on-going sales and marketing agreement with TCL Corp for distribution of the Company's products, including other video and audio products. As the PRC Sales and Marketing Agency Agreement only contemplates the distribution of TV products, a direct comparison of the historical figures would not be appropriate and would be somehow misleading.

We have reviewed the projections taking into account (i) the aggregate sales of TV products in the PRC in the past 2 years of approximately HK$8,336 million and HK$9,722 million in 2002 and 2003 respectively, and (ii) the general trend of the TV industry in the PRC and the emerging markets in the next few years. We have reviewed the Company's first quarter results announcement and note that an approximately 82% increase was recorded for TV products sold overseas in the first quarter of 2004, as compared to the first quarter of 2003. We find that TTE's projected annualised percentage increase in TV sales in the PRC of 37%, 14% and 18% in the next 3 years is in line with the growth of industry forecast. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

9. TCL Preferred Supplier Agreement

The monetary limits for the TCL Preferred Supplier Agreement are calculated with reference to (i) projected increase in terms of expenditure in the raw materials requirement of the TTE Group following Combination (based upon the historical amount of approximately HK$418.3 million and HK$512 million paid by the Company to TCL Corp for sourcing of raw materials for the financial year 2002 and 2003 respectively), and (ii) projected increase in the sales of TV products by the TTE Group, taking into consideration the operational synergies driven by (a) global presence advantage; (b) comprehensive product range; (c) increased R&D resources for innovation; and (d) sourcing and materials synergies driven by economies of scale following Closing.

We note that the Company has an existing on-going supply agreement with TCL Corp for the supply for raw materials. As a result of the Combination and the introduction of DLP TV (as defined below), a direct comparison of the historical figures would not be appropriate and would be somehow misleading.

We note that the annualised percentage increase of the proposed annual monetary limit is approximately 74% and 82% from 2004 to 2005 and from 2005 to 2006 respectively. We have discussed with the Company's management and note that such increase will mainly attribute from (i) the increase in material costs for digital light processing technology TV ("**DLP TV**") as a result of the projected increase in sales of DLP TVs in the next few years, which TTE will commence production upon its establishment; and (ii) sales generated from overseas business units of TTE in emerging markets, which, according to the Company's management, the Company's sales target for the 1st half of 2004 from such markets has already been reached. We have reviewed the projections and taking into account (i) the aggregate sales of Thomson TVs and the Company TVs in the above respective markets in the past 2 years of approximately HK$30.1 billion and HK$28.5 billion in 2002 and 2003 respectively; and (ii) the general trend of analog TV and DLP TV in the respective markets in the next few years, we find that the increase in projected purchase of raw materials from TCL Corp and its associates are in line with the growth of industry forecasts. Based on the foregoing, we are of the view that the annual monetary limit is reasonable in so far as the Independent Shareholders are concerned.

Having reviewed the aforesaid bases of determination of the annual monetary limits, we consider the bases and assumptions to be fair and reasonable, and that the annual monetary limit for each type of the Relevant Continuing Connected Transactions is fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

We also note that upon the expiry of the three-year period of the annual monetary limits as approved by the Independent Shareholders by poll at the EGM, the Company shall fully comply with the requirements of the Listing Rules, including but not limited to, seeking Independent Shareholders' approval by poll at general meeting. We consider this approval requirement provides the Independent Shareholders with an opportunity to review and reconsider the renewal of the annual monetary limits upon the expiry of the three-year term, and hence is fair and reasonable in so far as the Independent Shareholders are concerned.

G. PRESENTATION OF ACCOUNTANT'S REPORT IN THOMSON'S TV BUSINESS

We refer to the accountant's report of the Thomson's TV business (the "**Accountant's Report**") as contained in the Circular.

The financial information in the Accountant's Report has been prepared under French generally accepted accounting principles ("**FGAAP**"), and restated under Hong Kong generally accepted accounting principles ("**HK GAAP**"). This requires a waiver from strict compliance with the Listing Rules which require the Accountant's Report to be prepared under HK GAAP or International Accounting Standards ("**IAS**").

Given the reasons as discussed with the management, we consider that the presentation of the Accountant's Report in its current form is acceptable. In addition, we wish to highlight the following key reasons:

(a) We have been informed by the Directors of the Company that, based on the information provided by Thomson, the existing accounting and reporting systems of the Thomson Group do not enable them to report their financials under IAS or International Financial Reporting Standard ("**IFRS**"). As indicated in the Thomson Group's 2003 annual accounts circular, the Thomson Group is currently at a very preliminary stage of IFRS implementation and will not be able to report under IFRS until April 2005.

(b) We have also been informed by the Directors of the Company, based on the information provided by Thomson, that:

(i) Thomson's TV business operates in over 20 countries and the accounts of Thomson's TV business are inextricably linked with the accounts of the rest of the Thomson Group. Thomson's TV business has been operated within Thomson and has never been operated individually under a separate legal entity. No financial information of Thomson's TV business has been reported or audited separately. Any financial information of Thomson's TV business can only be carved-out from the financial statements of Thomson. It is therefore not possible to prepare accounts of Thomson's TV business under IAS or IFRS without preparing a new set of group accounting standards for the Thomson Group, changing the chart of accounts and training employees in several countries on such matters.

(ii) Any audit report in respect of IFRS-based accounts of Thomson's TV business can only be prepared after the IFRS-based accounts for the Thomson Group are themselves first prepared.

(iii) Thomson has therefore indicated that it is impossible to prepare a set of audited accounts for Thomson's TV business under IFRS prior to April 2005.

(c) As Thomson's TV business is still part of Thomson, the Directors of the Company cannot produce any financial information of Thomson's TV business without Thomson bearing responsibility on its preparation and approval.

(d) For similar reasons, audited accounts for Thomson's TV business under HK GAAP are not available. The Accountant's Report for inclusion in the Circular has therefore been prepared under FGAAP, with a restatement in accordance with HK GAAP, to present meaningful financial information to shareholders of the Company without undue delay.

(e) We note that there are several precedent transactions in which overseas companies having presented their financials in their local generally accepted accounting principles in the Accountant's Report for inclusion in public documents for the information of the Hong Kong shareholders.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following key factors in arriving at our opinion (based on the results of all analyses taken as a whole):

(i) the Board's view that the establishment of TTE will enhance the Company's market position and competitiveness, improve its growth prospects and enable it to realise operating synergies and improve operating efficiency;

(ii) the representation made by the Board that (i) the Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms, (ii) the purchase price payable by the Company for the Wuxi and Inner Mongolia Assets is, in the opinion of the Board, fair and reasonable, and (iii) the Acquisition is in the best interests of the Company and its Shareholders as a whole;

(iii) the Exchange Option Agreement and the DVD Option Agreement form part of the Combination, which terms have been arrived at on arm's length negotiation and must be viewed in totality rather than in isolation;

(iv) the Call Option is exercisable at the absolute discretion of the Company;

(v) the Board is of the opinion that the Relevant Continuing Connected Transactions to be entered into between the Group and TCL Corp or Thomson Group will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms;

(vi) the pricing and terms under the Relevant Continuing Connected Transactions were determined, based on or made reference to market rates or past practice of the respective parties, which generally will be no less favourable than that to any independent third parties. Moreover, the commercial terms and conditions of the Relevant Continuing Connected Transactions, which must be viewed in totality rather than in isolation due to their inter-related nature, have been well structured on an arm's length's basis with the involvement of both TCL Corp and the Thomson Group. The agreements contemplated are consistent with the principal businesses of the Group and the entering into of the Relevant Continuing Connected Transactions will enable the Group to achieve operational synergies, which will create significant value for Shareholders in the long-term; and

(vii) the Company has undertaken that it shall comply with the rules in relation to annual review of continuing connected transactions set out in Rule 14A.37 to Rule14A.41 of the Listing Rules, and that upon any variation or renewal of the Relevant Continuing Connected Transactions, the Company shall comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

OVERALL RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the Acquisition, the Exchange Option Agreement, the DVD Option Agreement, the Call Option Agreement, the Relevant Continuing Connected Transactions and their annual monetary limits are in the best interest of the Company and its Independent Shareholders as a whole and the terms thereof are fair and reasonable in so far as the interests of the Company and its Independent Shareholders are concerned, and are on normal commercial terms. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve (i) the Acquisition; (ii) the Exchange Option Agreement; (iii) the DVD Option Agreement; (iv) the Call Option Agreement and (v) the Relevant Continuing Connected Transactions and their annual monetary limits.

Yours faithfully,
For and on behalf of
Commerzbank AG Hong Kong Branch

Johnson Fu
Regional Head of Corporate Finance

Helen Ho
Head of Corporate Finance — M&A Advisory

A. INTRODUCTION

The Combination Agreement provides for the combination of the TV business of Thomson and the Company. It contemplates the acquisition of certain legal entities (the "Transferred Entities"), operating units within the Thomson Group, R&D facilities and current assets. The acquisition of the Thomson TV Business constitutes a major transaction for the Company and an accountants' report is therefore required by the Listing Rules to be included in the circular to its shareholders. The Accountants' Report, of which this circular forms part, has been prepared by Barbier Frinault & Autres Ernst & Young, Paris ("E&Y Paris") using the French generally accepted accounting principles ("FGAAP"). Due to the following reasons, the Company has applied to the Stock Exchange waivers from strict compliance with certain provisions of the Listing Rules governing the preparation of the Accountants' Report as further described below.

References to the Listing Rules in this appendix refer to the Previous Listing Rules, by which the Combination Agreement is governed, as the Combination Agreement was entered into and announced prior to the effective date of the Listing Rules on March 31, 2004.

BACKGROUND OF THOMSON TV BUSINESS

Thomson is a company incorporated under the laws of France, with its primary listing on the Premier Marche of Euronext Paris S.A. It has operations in over 20 countries around the world. As stated in the section headed "Information on the Thomson Group" in the Letter from the Board, Thomson has three principal divisions: Digital Content Solutions, Video Networks Solutions and Industrial and Consumer Solutions. The Thomson TV Business has been a part of the Consumer Products Division.

The Thomson TV Business has been operated by Thomson together with other activities within the Thomson Group and has never been operated individually under a separate entity or otherwise on a standalone basis. As the Thomson TV Business constitutes only part of the Thomson Group and is not required to be reported on as a distinct business under any regulation or legislation that governs Thomson, no audited financial statements for the Thomson TV Business have previously been prepared reported on a standalone basis. The financial information of the Thomson TV Business can only be carved out and pulled together from the financial statements of various entities within the Thomson Group, and are presented in the Accountants' Report as if the Thomson TV Business had been operated on a standalone basis during the period covered by the Accountants' Report.

Accountants' Report be prepared by E&Y Paris

In accordance with the local regulatory requirements of Thomson, the financial statements of Thomson have been prepared in accordance with FGAAP and are audited by E&Y Paris. E&Y Paris is registered with the French Institute of the Professional Accountants (Ordre des Experts Comptables).

The preparation of the standalone financial information of the Thomson TV Business requires that various items be carved out from the audited financial statements of various entities within the Thomson Group. This necessarily requires that the reporting accountants should be familiar with not only the Thomson TV Business, but also the operations, systems and structure of the Thomson Group as a whole, which has operations in over 20 countries. Any professional accounting firm that does not have the benefit of detailed prior knowledge of the Thomson Group as a whole but is asked to report on the Thomson TV Business cannot be expected to be able to opine on the standalone financial statements of the Thomson TV Business without extending the scope of their audit to cover other parts of the Thomson Group. As the background understanding and access that any professional accounting firm will have other than Thomson's auditors, E&Y Paris, would be substantially limited, the clearance to be given by such firm is expected to be restricted and, as a result, any report prepared by such firm would be limited in value to shareholders in assessing the performance of the Thomson TV Business during the period covered by the Accountants' Report. Under such circumstances, E&Y Paris is the most appropriate firm to prepare the Accountants' Report and report on the financial information of the Thomson TV Business and indeed it is impossible for other accounting firms to perform the work as required.

As E&Y Paris is not registered under the Professional Accountants Ordinance of the laws of Hong Kong, the Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules, which requires the Accountants' Report to be prepared by professional accountants who are qualified under the Professional Accountants Ordinance for appointment as auditors of a company. Rule 4.03 of the Listing Rules provided that, in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Stock Exchange may be prepared to permit the Accountants' Report to be prepared by a firm of accountants which is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

Accountants' Report be prepared using FGAAP

The financial statements of Thomson, from which the Accountants' Report is carved out, have been prepared using FGAAP and are audited by E&Y Paris. E&Y Paris are not qualified, and therefore it is not possible for it, to draw up or report any financial statements in conformity with HK GAPP.

Thomson advised that their existing accounting and reporting systems do not enable them to prepare their financials under Hong Kong generally accepted accounting principles ("HK GAAP") or international accounting standard ("IAS"). Thomson confirmed that they are currently at a very preliminary stage of international financial reporting standards ("IFRS") implementation and will be able to report under this standard only in April 2005 at the earliest. The Thomson TV Business operates across over 20 countries and has never been operated on a standalone basis. Its financials are inextricably linked with the rest of the Thomson Group. It is not possible to prepare accounts of the Thomson TV business under IAS or IFRS without preparing a new set of group accounting standards for the Thomson Group, changing the chart of accounts and training the employees across various countries. Any audit report in respect of IAS or IFRS based accounts of the Thomson TV Business could only then be prepared after the IAS or IFRS accounts themselves are prepared. The multiple countries that Thomson operates in further complicates this exercise.

Thomson informed that they have not yet approved the options available under IFRS 1 and the several IFR standards have not yet been voted by the European Community, Thomson advised that it is impossible for them to prepare the accounts of the Thomson TV Business under IAS or IFRS now. Even if the above matters are settled, Thomson advised that stating the financial information of the Thomson TV Business for the last two years in IAS or IFRS would require a tremendous amount of work. As there are specific steps for implementing the integrated information and reporting systems necessary to properly enable Thomson to prepare its accounts across the Thomson entities in numerous jurisdictions in accordance with IAS or IFRS, Thomson advised that it would be impossible to report the financial results of the Thomson TV Business in accordance with IAS or IFRS before April 2005, or approximately 11 months from now before Thomson is ready to report any part of its business in accordance with IFRS. As the Thomson TV Business is still part of the Thomson Group, the Directors cannot produce any financial information of the Thomson TV Business under IFRS without Thomson producing the same information and bearing responsibility on its preparation and approval.

Ernst & Young Hong Kong ("E&Y HK") are the auditors of the Company. Although E&Y HK is a member firm of Ernst & Young Global, E&Y Paris and E&Y HK are two separate legal entities and they are managed independently from each other. As E&Y HK is not the auditors of Thomson and Thomson does not give consent to E&Y HK to review its books and records, it is impossible for E&Y HK to report on the financial information in the Accountants' Report by itself or jointly with E&Y Paris under the auditing guidelines of the Hong Kong Society of Accountants.

The Accountants' Report has therefore been prepared under FGAAP, with restatement in accordance with HK GAAP, which would provide a better alternative for presenting meaningful financial information to investors without undue delay.

The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.11 of the Listing Rules, which requires that the financial history of results and the statement of assets and liabilities included in the Accountants' Report to be drawn up in conformity with HK GAAP or IAS normally.

Financial Information contained in the Accountants' Report

Financial information for the year 2001

Thomson has confirmed the Board that due to the occurrence of the following events prior to January 1, 2002, it is practically impossible to prepare any financial statements for the Thomson TV Business for the year ended December 31, 2001 on a basis that is comparable to those for the years 2002 and 2003:

(1) The organisational structure and the internal reporting regime within the Thomson Group changed in the year 2001 and as a result of the change, the current bases of allocation of the corporate, marketing, sales, research and development costs cannot simply be adjusted to reflect the operations of the Thomson TV Business as it currently stands as the nature of these expenses has been redefined as part of the overall global strategy modification.

(2) The consolidated financial statements of Thomson for the year ended December 31, 2001 were audited by Arthur Andersen, which no longer exists as a practising accountancy firm. This has resulted in a lack of recourse to material working papers on which E&Y, Paris would need to rely on in considering the level of assurance on the 2001 figures. For example, neither E&Y Paris nor a member firm of Ernst & Young Global in countries other than France observed the counting of the physical inventories as at December 31, 2001 or obtained third party confirmations.

(3) The Thomson TV Business includes seven entities, of which Thomson Zhao Wei Multimedia Co Ltd had not been operating during the full 2001 year as it was set up during that year. In addition, except for Thomson Multimedia Polska Zyrardow, none of the remaining six entities was subject to an audit for consolidation purpose for the year ended December 31, 2001 as they were not considered material in comparison to the Thomson Group's consolidated financial statements. Although Thomson Multimedia Operations

(Thailand) Company Limited and Thomson Multimedia India Private Limited produced audited financial statements in 2001, those financial statements were prepared under local GAAP and were audited by Arthur Andersen.

(4) Human resources changes in personnel have resulted in the key finance personnel currently responsible for the Thomson TV Business being different from those in place in 2001. It is thus difficult to gain an understanding of the 2001 figures by means of discussions with the current management.

Thomson has further confirmed that as it has never prepared any management accounts for the Thomson TV Business for the year 2001 on a basis that is comparable to those to be prepared for the years 2002 and 2003, it would be of limited value and potentially misleading for investors to compare any accounts prepared for the year 2001 on a basis other than that proposed for 2002 and 2003 with the financial information for the years 2002 and 2003.

Therefore, it is impossible for the Directors to produce any financial statements to show the results of operations or cash flows of the Thomson TV Business for the year 2001 or the aggregate assets or liabilities of the Thomson TV Business as at the end of 2001. Given the changes that have taken place in the television manufacturing industry in the last couple of years, the Directors considered that the financial information for the year 2001 is not relevant in considering their decision to invest in the Thomson TV Business pursuant to the terms of the Combination Agreement. Accordingly application has been made for a waiver from strict compliance with Rule 4.06 of the Listing Rules, which requires the Accountants' Report to include, among others, the results of the business to be acquired in respect of each of the three financial years immediately preceding the issue of the Circular and for the consent of the Stock Exchange for the dispensation of the financial information for the year 2001.

Cash Flow Statement for the years 2002 and 2003

Thomson advised that:

(a) It has never maintained a separate and complete set of financial statements of the Thomson TV Business on a standalone basis. There is no complete record of the cash movement directly associated with the operations of the Thomson TV Business on a standalone basis. Cash inflow and outflow into the Thomson Group cannot be distinguished between operations arising from its TV business and other activities.

(b) The revenue of the Thomson TV Business arising from sales to external customers are recorded in the books of, and billed and collected by, other entities within the Thomson Group (the "Sales and Distribution Companies") that are not to be transferred to TTE. These other entities also record, bill and collect revenue from the same group of external customers in respect of other businesses within the Thomson Group.

(c) Certain entities within the Thomson Group that are not transferred to TTE borne and recorded the corporate overheads, sourcing, sales and marketing expenses of various other businesses within the Thomson Group. These expenses charged to the Thomson TV Business only represent a notional allocation of the group expenses of Thomson. These expenses are in substance funded by Thomson during the period covered by the Accountants' Report.

(d) As the financial information of the Thomson TV Business is carved out and pulled together from various financial statements of entities within the Thomson Group, the intercompany balance with other parts of the Thomson Group would have to be artificially created to balance the balance sheet of the Thomson TV Business. It is impossible to distinguish whether such intercompany balance is equity (long term) or working capital in nature.

(e) There is also no complete record of the cash balance of the Thomson TV Business on a standalone basis. The cash and bank balances maintained by the legal entities that will be transferred to TTE, which only maintained certain bank accounts for local expenses, are not representative of the cash balance or the movement of the Thomson TV Business as a whole.

(f) By the very nature of the Thomson TV Business, investing or financing activities cannot be carved out from the financial statements of Thomson to reflect such activities as if the Thomson TV Business had been operated on a standalone basis during the period covered by the Accountants' Report.

As complete and distinct financial information for the Thomson TV Business on a standalone basis, such as balance sheet information and movements in working capital, has never been kept, Thomson confirmed that it is impossible to prepare a complete statement of cash flows of the Thomson TV Business that could fairly represent the cash flow position of the Thomson TV Business or will be in full compliance with generally accepted accounting principles. The Company has therefore applied to the Stock Exchange from strict compliance with Rule 4.06 of the Listing Rules, which requires, among others, the Accountants' Report to include the cash flow statement of the business to be acquired for the three years immediately preceding the issue of the circular.

Combined Financial Information of the Thomson TV Business

The Combination Agreement provides for the contribution of the Thomson TV Business as a whole instead of transfer of each individual Transferred Entities. The Transferred Entities are just part of the manufacturing base of the Thomson TV Business and none of these entities is representative of the Thomson TV Business as a whole. The consideration under the Combination Agreement covers the Thomson TV Business as a whole in one package and each the Transferred Entities can neither be acquired nor priced separately. It is not only meaningless to present financial statements of each Transferred Entity, but also misleading.

It is impossible to present the revenue and expenses of the Thomson TV Business by presenting the financial statements of each individual Transferred Entity, because:

(1) The revenue recorded by the Transferred Entities represented only the intra-group sales on transfer pricing within the Thomson Group. These intra-group sales cannot simply be eliminated because the Sales and Distribution Companies are not transferred to TTE pursuant to the Combination Agreement, and have no meaningful correlation to the level of sales to outsiders, which were recorded and billed by the Sales and Distribution Companies that are not transferred to TTE.

(2) The expenses recorded by the financial statements of the Transferred Entities did not capture all the corporate, sourcing, sales and marketing expenses of the Thomson TV Business because these Transferred Entitites did not carry out any sourcing, sales and marketing function and such expenses were incurred by other entities within the Thomson Group that will not transferred to TTE.

It is also impossible to present the assets and liabilities of the Thomson TV Business as at the end of each period covered by the Accountants' Report by presenting each individual financial statement of the Transferred Entities, because:

(1) certain assets to be transferred to TTE are not recorded in the financial statements of the Transferred Entities and are required to be caved-out from the financial statements of other entities within the Thomson Group;

(2) certain intercompany balances with the rest of the Thomson Group, such as those of the Sales and Distribution Companies, cannot be eliminated because such Sales and Distribution Companies will not be transferred to TTE pursuant to the Combination Agreement;

(3) the Transferred Entities included operation not associated with the Thomson TV Business and are required to be deducted from the financial statements of the Transferred Entities.

Thomson confirmed that the combined statement of revenue and expenses for the periods covered by the Accountants' Report and the combined statement of assets and liabilities as at the end of each of those periods prepared on the basis as currently disclosed in the Accountants' Report reflect the substance of the Thomosn TV Business to be acquired by the Company pursuant to the Combination Agreement. For the reasons stated above, it is not possible to reflect the results of operations of the Thomson TV Business as if it had been operated on a standalone basis during 2002 and 2003 except in accordance with the basis of preparation as currently disclosed in the Accountants' Report.

The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.09(2), which requires the reporting accountants to report on the financial histories of results and assets and liabilities of each of the companies to be acquired, unless otherwise agreed by the Stock Exchange.

Having considered the circumstances described above, the Directors considered that the presentation of the Accountants' Report, of which this circular forms part, in the current form is acceptable.

B. ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from Barbier Frinault & Autres Ernst & Young, a firm of professional accountants registered in France, being the reporting accountants for the Thomson TV Business.

ERNST & YOUNG

Barbier Frinault & Autres
S.A.S à capital variable de37.000 €
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May 31, 2004

To: The Directors of Thomson and
The Directors of TCL International Holdings Limited

INDEPENDENT AUDIT OPINION ON SPECIAL PURPOSE COMBINED FINANCIAL INFORMATION

Dear Sirs,

We have audited the accompanying special purpose combined statements of assets and liabilities for the Thomson TV Business (Note 1) a segment of Thomson (the "Company"), a French corporation, as at December 31, 2002 and December 31, 2003 and related special purpose combined statements of revenue and expenses for each of the two years in the period ended December 31, 2003 (together with their related notes referred to as the "Combined Financial Information"). This Combined Financial Information is the responsibility of the Company's management. Our responsibility is to express an opinion on this Combined Financial Information based upon our audits.

The Combined Financial Information has been prepared by Company's management for the purpose of fulfilling the reporting requirements of the proposed joint venture transaction between the Company and TCL International Holdings Limited.The Accountants' Report has been prepared in accordance with the Auditing Guideline on "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants except that we applied International Auditing Standards instead of Hong Kong auditing standards. We disclaim any assumption of responsibility for any reliance on this report or on the Combined Financial Information to which it relates to any person other than the Company's Directors or for any purpose other than that for which it was prepared.

Except as discussed in the first and third following paragraphs below, we conducted our audits in accordance with International Auditing Standards (the "Standards"). The Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Financial Information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Combined Financial Information. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall Combined Financial Information presentation. We believe that our audits provide a reasonable basis for our opinion.

The process by which the Combined Financial Information of Thomson TV Business were carved out of Thomson consolidated financial statements is described in note 1.1 to the Combined Financial Information. The Combined Financial Information has been prepared according to the accounting principles described in Note 1 to the Combined Financial Information and together referred to as the "Accounting Principles". As described in note 1.2, the Accounting Principles do not constitute a comprehensive basis of accounting, which therefore creates an exception to International Standard ISA 800.

The Combined Financial Information does not necessarily reflect the results of operations and the financial position of the Thomson TV Business that would have been recorded had it been operated as a stand-alone entity during the two year period ended December 31, 2003 (the "Period") because during the Period, Thomson TV Business was part of the Consumer Products Division of Thomson (as defined in Note 1.1) and was not operated separately. Moreover, the allocation of costs resulting in the Stand Alone Expenses (as defined in Note 1.1.3.2 to the Combined Financial Information) required significant use of estimates by Company's management. Accordingly, we are not expressing an opinion as to whether the Combined Financial Information presents fairly the financial position of the Thomson TV Business and the results of its operations had the Thomson TV Business operated as a stand-alone entity.

Accounts receivables, other assets, accounts payables, accruals for pension and other liabilities amounts (the "Allocated Balances") as of December 31, 2002 and December 31, 2003 have not been extracted from accounting records separately maintained for and dedicated to the Thomson TV Business because the Company did not maintain such dedicated accounting records for the Period and consequently have been determined based on estimates as further described in note 1.1.2. Actual amounts could differ materially from the estimation presented in the special purpose combined statements of assets and liabilities. In the absence of dedicated accounting records we were unable to audit the Allocated Balances.

Because of the significance of the matter discussed in the precedent paragraph, we do not express an opinion on the special purpose combined statements of assets and liabilities as of December 31, 2002 and December 31, 2003. In our opinion, the special purpose combined statements of revenue and expenses give a true and fair view of the results of operations of the Thomson TV Business for the years ended December 31, 2002 and December 31, 2003 in accordance with the Accounting Principles.

We have not audited any Combined Financial Information of the Thomson TV Business in respect of any period subsequent to December 31, 2003.

Paris, France, May 31, 2004, except for the amounts translated into Hong Kong dollars for convenience purpose for which the date is May 27, 2004.

BARBIER FRINAULT & AUTRES
ERNST & YOUNG
Jérôme Guirauden Christian Chiarasini

COMBINED FINANCIAL INFORMATION (NOTE 1)

The translation of amounts from EUR ("Euros") into Hong Kong dollars has been made merely for the convenience of the reader at the exchange rate of €1.00 equals to 9.4 HKD ("HK$ or HK Dollars") and do not represent actual amounts in HKD.

Special Purpose Combined Statements of Revenue and Expenses

	Note	**12 months ended December 31, 2003** *Euros in millions*	**12 months ended December 31, 2003** *HK Dollars in millions*	**12 months ended December 31, 2002** *Euros in millions*	**12 months ended December 31, 2002** *HK Dollars in millions*
Net Sales	1.1.3.1 (A)	**1,708**	**16,055**	**2,215**	**20,821**
Cost of Sales	1.1.3.1(B) & 1.1.3.2 (A)	(1,506)	(14,156)	(1,861)	(17,493)
Gross Profit		**202**	**1,899**	**354**	**3,328**
Selling, and Marketing expenses	1.1.3.1 (C) & 1.1.3.2 (B)	(227)	(2,134)	(281)	(2,641)
General and administrative expenses	1.1.3.1 (C) & 1.1.3.2 (B)	(57)	(536)	(66)	(621)
Research and development	1.1.3.1 (D)	(48)	(451)	(57)	(536)
Operating income, (loss)		**(130)**	**(1,222)**	**(50)**	**(470)**
Non current income (loss), net	1.1.3.1 (E) and 2.	(44)	(413)	(29)	(273)
Financial Result	1.1.3.1 (F) & 6	1	9	9	85
Profit, (loss) before tax		**(173)**	**(1,626)**	**(70)**	**(658)**
Income tax	1.1.3.1 (G) and 5 a)	(10)	(94)	(5)	(47)
Net Result Thomson TV Business		**(183)**	**(1,720)**	**(75)**	**(705)**

Special Purpose Combined Statements of Assets and Liabilities

	Note	12 months ended December 31, 2003 *Euros in millions*	12 months ended December 31, 2003 *In millions of HK Dollars*	12 months ended December 31, 2002 *Euros in millions*	12 months ended December 31, 2002 *In millions of HK Dollars*
Non current assets					
Tangible fixed assets	3	126	1,184	160	1,504
Intangible assets		2	19	1	9
Deferred tax assets	5 (b)	1	9	—	—
Total Non current assets		**129**	**1,212**	**161**	**1,513**
Current assets					
Inventory, net	4	141	1,326	229	2,153
Accounts receivables, net		278	2,613	332	3,121
Other receivables	8	31	291	28	263
Cash and cash equivalents	12	50	470	22	207
Total current assets		**500**	**4,700**	**611**	**5,744**
Current liabilities					
Accounts payables		(332)	(3,121)	(235)	(2,209)
Other payables	8	(44)	(413)	(48)	(451)
Pension accrual	10	(13)	(122)	(13)	(122)
Provisions	12	(27)	(254)	(49)	(461)
Financial debt	7	(19)	(179)	(28)	(263)
Total current liabilities		**(435)**	**(4,089)**	**(373)**	**(3,506)**
Non current liabilities					
Deferred tax liabilities	5 (b)	(6)	(56)	(7)	(66)
Total non current liabilities		**(6)**	**(56)**	**(7)**	**(66)**
Net assets of Thomson TV Business		**188**	**1,767**	**392**	**3,685**

(Off balance sheet commitments note 11)

The accompanying notes are an integral part of the Combined Financial Information.

NOTES TO THE COMBINED FINANCIAL INFORMATION

Purpose

The special purpose combined statements of revenues and expenses (hereafter referred to as the "Combined Statements of Revenues and Expenses) and special purpose combined statements of assets and liabilities (hereafter referred to as the "Combined Statements of Assets and Liabilities") and accompanying notes (altogether referred to as the "Combined Financial Information) have been prepared for inclusion in a circular dated May 31, 2004 ("the Circular") of TCL International Holdings Limited ("TCL") in connection with the Combination Agreement dated January 28, 2004 entered into by TCL, TCL Corporation and the "Company", the "Combination Agreement". The aim of this Combined Financial Information is mainly to reflect the historical standalone performance of the Thomson TV business (the "Thomson TV Business" as described below in note 1.1.1) to be transferred by Thomson to TTE Corporation, the joint venture company to be established to own the TV businesses contributed by Thomson and TCL ("TTE"). Such Combined Financial Information has been prepared in accordance to the basis of preparation as described below.

As of the closing of the transaction, certain assets and liabilities included in the Combined Statement of Assets and Liabilities will (i) not be transferred to TTE or (ii) will be transferred for amounts which may differ from the estimate used in the preparation of the Combined Financial Information.

Such assets and liabilities are mainly related to working capital and provisions of marketing and sales entities referred to as "Non Transferred Entities" (as defined under paragraph 1.1.1 below) for (i) referred to in the preceding paragraph above, and to pension for (ii) referred to in the above paragraph.

1. BASIS OF PREPARATION AND ACCOUNTING PRINCIPLES

1.1 Basis of preparation

Based on the terms of Combination Agreement, the assets and liabilities forming the Thomson TV business (the "Thomson TV Business" as described below in note 1.1.1) to be contributed by Thomson to TTE Corporation, the joint venture company to be established to own the TV businesses contributed by Thomson and TCL pursuant to the terms of the Combination Agreement ("TTE") include mainly TV manufacturing plants, research and development centers and their related employees, and certain sales and marketing units outside of Europe and North Americas. The Thomson marketing and sales organization for Europe and the Americas (the "Non Transferred Entities" as described below) will not be contributed by Thomson but will act as a sales agent for TTE.

Assets and liabilities to be contributed into TTE by Thomson include shares of legal entities, which will be fully transferred (the "Transferred Entities" as under note 1.1.1) as well as certain TV assets and liabilities of other Thomson subsidiaries (the "Partially Transferred Entities" as described under note 1.1.1). Certain assets and liabilities of the Transferred Entities (the "Non TV assets and liabilities") will not be contributed into TTE and as such have been excluded from the scope of the Combined Financial Information. Within the Thomson Group (defined as Thomson and its subsidiaries), products manufactured are sold internally by the manufacturing units to the marketing and sales organization (based upon inter-company transfer prices (the "Transfer Prices")), which is responsible for the relationship with the final external customer. As a consequence, the Transferred Entities revenues as shown in their statements of income are based upon the Transfer Prices, which represent approximately 75% of the total revenue of the Thomson TV Business (as defined under note 1.1.1) as determined on the basis of selling prices to the external customers.

As an integrated business unit of the Thomson Group (defined as Thomson and its subsidiaries), the Thomson TV Business (as defined in note 1.1.1) does not prepare separate combined financial statements in accordance with generally accepted accounting principles in France (French GAAP) in the normal course of operations.

In order to reflect the historical standalone performance of the Thomson TV business (as defined under note 1.1.1), Thomson prepared the Combined Financial Information by combining:

- The historical financial statements of the Transferred Entities,
- TV assets and liabilities of the Partially Transferred Entities,
- Some income statement and balance sheet items of the Non Transferred Entities and,
- Stand-Alone adjustments.

The Combined Financial Information thus does not necessarily reflect the results of operations and the financial position of the Thomson TV Business (as defined under note 1.1.1) that would have been recorded had it been operated as a stand-alone entity during the two years ended December 31, 2003 (the "Period") because the Thomson TV Business (as defined under note 1.1.1) has historically been part of Thomson's Consumer Products Division (as defined in the audited consolidated financial statements of Thomson) and has never been operated separately. The Combined Financial Information should therefore be read in conjunction with the audited consolidated financial statements of Thomson for the Period.

Moreover, the allocation of costs resulting in the Stand Alone Expenses (as defined under 1.1.3.2 below) required significant use of estimates by Thomson. The allocation methodology is described under note 1.1.3.2 hereafter to the Combined Financial Information. Management of Thomson believes that the allocation methodologies have been consistently applied and are reasonable.

1.1.1 *Scope of the Combined Financial Information*

The scope of the Combined Financial Information referred to as "Thomson TV Business" includes the following:

(A) *The Transferred Entities*

The Transferred Entities are entities (whether legal entities or operating entities), which will be fully transferred to TTE upon completion of the Combination. The Transferred Entities include:

(a) shares of the following legal entities mainly engaged in the manufacturing of TV products,

Company Name	**Place and date of incorporation**	**Paid-up capital** *(Euro'000)*	**Percentage of equity interest**
RCA Componentes S.A. de C.V.	Mexico January 21, 1974	4,832	100
Manufacturas Avanzadas, S.A. de C.V.	Mexico March 13, 1997	20,152	100
Thomson Televisiones de Mexico, S.A. de C.V.	Mexico August 8, 1990	12,669	100
Thomson Manufacturing Operations (Thailand) Co Ltd (previously known as Thomson Multimedia Operations (Thailand) Company Limited)	Thailand March 31, 1989	4,396	100
Thomson India Pvt Ltd (previously known as Thomson Multimedia India Private Limited)	India June 8, 1994	15,704	100
Thomson Zhaowei Multimedia Company Limited	The PRC July 23, 2001	23,752	55

(b) assets and liabilities related to RCA Componentes S.A. de C.V., Manufacturas Avanzadas S.A. de C.V. and Thomson Televisiones de Mexico S.A. de C.V. but owned by and recorded in financial statements of Thomson Inc. in agreement with the so-called Maquila scheme (which is a Mexican border development program whereby a significant portion of assets and liabilities related to TV business operation in Mexico are kept in the books of a US related party for tax purposes);

(c) assets and liabilities of a branch of a subsidiary of Thomson in Poland.

(B) *The Partially Transferred Entities*

(a) tooling equipments held by two subsidiaries of Thomson in France and Germany and;

(b) research and development centers held by certain subsidiaries of Thomson in Singapore, Indianapolis, Angers and Villingen.

Certain assets and liabilities currently recorded in the books of the entities referred to in (A) and (B) above which are unrelated to the Thomson TV Business will be transferred from those entities to a subsidiary of Thomson prior to the completion of the Combination Agreement.

(C) *The Non Transferred Entities*

Certain financial data related to assets and liabilities, and certain data related to revenues and expenses of the Non Transferred Entities contributing to the Thomson TV Business are included in the Combined Financial Information so as to reflect the historical standalone performance of the Thomson TV Business. Such data are described in note 1.1.2 "Combined Statements of Assets and Liabilities", and note 1.1.3 "Combined Statements of Revenue and Expenses" presented below, respectively.

1.1.2 *Combined Statements of Assets and Liabilities*

The Combined Statement of Assets and Liabilities incorporates:

(A) *Assets and Liabilities of the Transferred Entities*

The Combined Statements of Assets and Liabilities incorporate the combined balance sheets of all Transferred Entities but excluding the Non TV assets and liabilities.

(B) *Assets and Liabilities of the Partially Transferred Entities*

Assets and Liabilities of the Partially Transferred Entities mainly include:

(a) The tooling equipment situated at one of the plants of the Thomson Group in France in the value of Euros 2.9 million (HK$27 million) and Euros 2.4 million (HK$23 million), included in the tangible fixed assets in the Combined Statement of Assets and Liabilities as at December 31, 2002 and 2003 respectively;

(b) The "model shop" equipment situated at one of the plants of the Thomson Group in Germany in the value of Euros 0.9 million (HK$8.5 million) and Euros 1 million (HK$9.4 million), included in the tangible fixed assets in the Combined Statement of Assets and Liabilities as at December 31, 2002 and 2003 respectively;

(c) The research and development centers located in Singapore, Indianapolis, Angers in France and Villingen, with an aggregate net book value of Euros 17.5 million (HK$164.5 million) and Euros 9.5 million (HK$89.3 million), included in the tangible fixed assets in the Combined Statement of Assets and Liabilities as at December 31, 2002 and 2003 respectively;

(d) The accrual for pensions in the amount of Euros 13 million as at December 2002 (HK$122 million) and Euros 13 million as at December 2003 (HK$122 million). Such amounts have not been extracted from accounting records separately maintained for and dedicated to Thomson TV Business because Thomson did not maintain such dedicated accounting records for the Period and consequently have been determined based upon a preliminary estimation of the headcounts to be transferred to TTE. Such balances are referred to as "Allocated Balances".

(C) *Assets and Liabilities of the Non Transferred Entities*

The contribution of the Non Transferred Entities to the Combined Statements of Assets and Liabilities is restricted to certain elements of operating working capital from the non transferred sales and marketing entities so as to present the Thomson TV Business as if it was operating on a stand alone basis in order to simulate the level of working capital requirement needed to operate it with its own sales and marketing capabilities. These elements relate to account receivables, inventories, other assets, account payables, and other liabilities of the Thomson sales and marketing entities for the portion related to the Thomson TV Business. Except for the inventory, these amounts have not been extracted from accounting records separately maintained for and dedicated to Thomson TV Business because Thomson did not maintain such dedicated accounting records for the Period and consequently have been determined based upon estimation of a percentage of total respective accounts of the legal entities from which those amounts have been carved out. Such amounts are referred to as "Allocated Balances".

The Combined Statements of Assets and Liabilities do not include a number of balance sheet items from the Non Transferred Entities such as (not limitative to this list) marketing and sales accruals (royalties, advertising, Coop advertising), employee related liabilities (payroll and related accruals, worker compensation, pensions and OPEB), restructuring and legal reserves, which would have been included in a full balance sheet. However, Thomson's management accounts system records the TV Business revenues and expenses separately. As a consequence, even if balance sheet accounts cannot be separately identified, the related actual figures for incomes (expenses) are captured as part of the Combined Statement of Revenue and Expenses.

1.1.3 *Combined Statements of Revenue and Expenses*

1.1.3.1 The Combined Statements of Revenue and Expenses include:

(A) *Thomson TV Business Revenue from external customers*

As part of the Thomson organization, the Non Transferred Entities (i.e. sales and marketing entities) are selling the TV products to the external customers. When the Combination Agreement is completed, the TV products manufactured by the Transferred Entities are to be sold by the TTE Group (defined as TTE and its subsidiaries) to external customers through sales agents.

(B) *Cost of sales*

This line reflects the cost of production of Thomson TV finished goods. Such TV manufacturing entities (i.e. the Transferred Entities) costs are based on Transfer prices (as stated under 1.1) as defined by Thomson management. Management believes that Thomson internal transfer prices have been established using consistent method and reflect market conditions over all periods presented.

(C) *Selling, marketing, general and administrative expenses*

Non Transferred Entities include a significant portion of (i) selling and marketing and (ii) general and administrative expenses related to the Thomson TV Business in the respective amount of for (i) Euros (227) million (HK$(2,134) million) and Euros (278) million (HK$(2,613) million as at December 31, 2003 and 2002 respectively and for (ii) Euros (41) million (HK$(385) million) and Euros (51) million (HK$(479) million) for the year ended December 31, 2003 and 2002 respectively.

Such expenses related to Non Transferred Entities have been included in the Combined Statement of Revenues and Expense so as to present the Thomson TV business as if it had been operated as a stand-alone entity with independent sales and marketing capabilities.

(D) *Research and development costs*

This line includes the research and developments costs incurred by the Transferred Entities for the amount of Euros (12) million (HK$(113) million), Euros (11) million (HK$(103) million) for the year ended December 31, 2003 and 2002 respectively as well as the amount of research and developments expenses of Partially Transferred Entities (Euros (36) million for the year ended December 31, 2003 (HK$(338) million) and Euros (46) million for the year ended December 2002 (HK$(432) million)).

(E) *Non current income (loss), net*

This line includes mainly restructuring charges and stand alone adjustments and is detailed under note 2.

(F) *Financial Result*

The financial result relates solely to Transferred Entity because it was not possible to allocate the costs and income associated to the foreign exchange risk management and function units of Thomson TV business as Thomson Group provides treasury function to all of its business.

(G) *Income tax*

The tax amount relates only to Transferred Entities because it was impossible to provide for tax effect on carved out amounts from Partially Transferred and Non Transferred Entities as the taxation position of the Thomson Group has been managed on an overall group basis which has not historically attributed tax charges and credits to business units within the Thomson Group.

1.1.3.2 Allocation used on the components of the Combined Statements of Revenues and Expenses

A significant portion of corporate overhead, sourcing, sales and marketing expenses (together the "Stand-Alone Expenses"), such as charges for information technology, finance, legal affairs, rental charges, human resources management, communications, advertising, brand management and marketing research services are not directly incurred by the Thomson TV Business but allocated to the Thomson TV Business through the overall Thomson costs allocation scheme. This allocation required significant use of estimates by Thomson based on its overhead and other expenses incurred during the Period and its group structure and operation systems, which are outside the scope of the Combination Agreement. Thomson Management believes that the allocation methodologies applied are reasonable and have been consistently applied over the Period.

Upon completion of the Combination Agreement, TTE Group shall bear the costs of these corporate overhead, sourcing and sales and marketing expenses in accordance with the terms of the Transaction Documents as described in the section headed "Transaction Documents" in the Circular of which this report forms part, rather than in accordance with the previous allocation principles. The Stand-alone Expenses may not be representative of what would have been reported if the Thomson TV Business had been operated as a stand-alone entity during the Period and may differ from the costs resulting from application of the Transaction Documents in future.

The main Stand Alone Expenses are as follows:

(A) *Costs of sales*

Euros (11) million (HK$(103) million) and Euros (13) million (HK$(122) million) included in the costs of sales line of the Combined Statement of Revenues and Expenses for 2003 and 2002 respectively are resulted from allocation of expenses incurred by central purchasing department.

These costs were allocated to the Thomson TV Business in a manner consistent with the methodology used by Thomson to allocate these costs among the various businesses. Allocation criteria include headcounts, revenues and number of users.

(B) *Selling, Marketing, and General and Administrative expense (SMG&A)*

The allocation methodology is as follows.

— Sales and Marketing expenses

Euros (118) million (HK$(1,109) million) and Euros (143) million (HK$(1,344) million) included in the SMG&A expenses for 2003 and 2002 respectively are resulted from allocation of sales force, sales administration, after-sales services, advertising and warehousing expenses. These costs were allocated to the Thomson TV Business in a manner consistent with the methodology used by Thomson to allocate these costs among the various businesses. Allocation criteria include revenues and efforts (time spent).

— General and Administrative expenses

Euros (57) million (HK$(536) million) and Euros (66) million (HK$(620) million) included in the SMG&A expenses for 2003 and 2002 respectively are resulted from allocation of common expenses. Allocated expenses under this caption include information technology, Thomson management incentives program, financial shared services and management overheads (tax, legal, accounting, common administrative costs). These costs were allocated to the Thomson TV Business in a methodology consistent with the manner used by Thomson to allocate these costs among the various businesses. Allocation criteria include revenues and efforts (i.e. time spent).

In addition, certain operating expenses incurred at the Thomson Group corporate level to serve the various business units have never been allocated to the five reporting segments of Thomson as such costs corresponding to central research and general corporate functions and worldwide programs are unrelated to a specific business. Accordingly such costs remain at the corporate level. These costs represented Euros (121) million (HK$(1 137) million) and Euros (114) million (HK$(1 072) million) for the year ended December 31, 2002 and December 2003, respectively 1.2 % and 1.35% of the Thomson consolidated turnover, respectively and have not been allocated to the Thomson TV Business. In the future, those costs will either be not charged to TTE or be included in the service agreements that will be signed between the parties.

1.1.4 *Preparation of cash flows statements*

As described in detail above, the Thomson TV Business has historically been operated as part of the Thomson's Consumer Products Division and funded by Thomson.The investing and financing activities were carried out by Thomson on a centralised basis during the Period and the financial impact of these activities cannot be distinguished and allocated among different activities of the Thomson Group. In addition, the accounting system and records of Thomson is not designed to separately identify the current assets and liabilities of the Thomson TV Business from other activities of the Thomson Group because the Thomson TV Business is not separately operated nor reported within the Thomson Group. There is no complete record of:

(a) the balance of and the movement of cash during the Period that solely relates to the Thomson TV Business;

(b) apart from inventory, the balance of and the movement of other working capital items (i.e. the current assets and current liabilities) that relates solely to the Thomson TV Business during the Period.

Given the Combined Financial Information is carved-out and pulled together, an intercompany balance with other parts of the Thomson Group would have to be artificially created to balance the balance sheet of the Thomson TV Business. It is impossible to distinguish whether the intercompany balance with Thomson is of an equity (long term) or working capital in nature.

It is therefore impossible to prepare a cash flow statement in full compliance with generally accepted accounting principles.

The limited information related to cash generated from Thomson TV operations before non recurring and tax items is provided under note 12.

1.1.5 *Production of 2001 financial statements*

There were a number of significant structural and organisational changes to the Thomson Group between 2001 and 2002, which were intended to improve the internal management systems to better reflect the operations of each business unit as advised by Thomson. The changes in the internal organisation of the business unit including the Thomson TV Business with effect from January 1, 2002 included:

(a) Prior to that time, the internal marketing, sales, research and development costs were managed and allocated on a geographic area basis while after that time this was dealt with on a global basis leading to a different basis for the allocation of these costs.

(b) With effect from 2002, all the Mexican Transferred Entities have been moved under the scope of Thomson's Juarez management service centre. This service centre does not form part of the Thomson TV Business to be transferred. As a consequence, the volume of transactions involved in terms of payables, fixed assets and travel and living expenses increased and has become more complex.

As a result of the change, the current bases of allocation of the corporate, marketing, sales, research and development costs cannot simply be adjusted to reflect the operations of the Thomson TV Business as it currently stands as the nature of these expenses has been redefined as part of the overall global strategy modification. In addition, the key finance personnel currently responsible for the Thomson TV Business was also different from those in place in 2001. It is therefore difficult to gain an understanding of the 2001 figures by means of discussions with the current management.

Accordingly, it is practically impossible to prepare any accounts for the Thomson TV Business for the year ended December 31, 2001 on a basis that is comparable to the Combined Financial Information.

1.2 Accounting Principles

Subject to the basis of preparation described above, the Combined Financial Information has been prepared in accordance with Thomson accounting policies detailed under note 1.3 which are in accordance "French GAAP" as set forth in the French law on consolidation (the Act of January 3, 1985) and within Regulation 99-02 approved by decree dated June 22, 1999 of the Comité de Réglementation Comptable (CRC) and with Règlement CRC 2002-12 related to Combined Financial Information, with the following exceptions:

— "Financial Reporting by Segment" as no complete segment information has been presented;

— "Related Party Disclosure" as no information is presented;

— "Presentation and disclosure of financial instruments" as such information has not been presented;

— "Accounting for hedged transaction and presentation and disclosure on financial result" as such information has not been presented;

— "Accounting for pension accrual and presentation and disclosures" as no actuarial evaluation was available on the perimeter of the transaction included the number of people transferred as of the end of each date and accordingly the calculation made is the result of estimates and computed based upon prorata of employees to be transferred;

— "Off balance sheet commercial and contractual commitments" as no extensive information is available for the entire perimeter; and

— "Classification of non current expenses, income, net" as the Combined Financial Information aims to present the earning on a recurring basis while Thomson operating income aims to represent income before exceptional items.

1.3 Extract of Thomson accounting principles relevant to the Combined Financial Information

The consolidated financial statements of Thomson have been prepared in accordance with "French GAAP" as set forth in the French law on consolidation (the Act of January 3, 1985) and within Regulation 99-02, approved by the decree dated June 22, 1999 of the *Comité de la Réglementation Comptable (CRC)*.

Financial statements of consolidated subsidiaries, when prepared in accordance with the accounting principles generally accepted in their country of origin, have been adjusted accordingly in consolidation.

— Use of estimates

The preparation of the consolidated financial statements in conformity with French GAAP requires management to make estimates (as mentioned under1.1.2 (C) and 1.1.3.2) and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period of the consolidated statements. Actual results could differ from these estimates.

Estimates made by management include among other items, accrued accounts receivable, deferred tax, inventory and investment valuation allowances, retirement and post-retirement benefits, depreciation and amortization, loss reserves, contingencies and environmental obligations.

(A) *Translation of foreign subsidiaries' financial statements*

The accounts of foreign subsidiaries are translated into euro using the principles set forth below:

Balance sheets are translated at closing rates prevailing at the balance sheet date; statements of income and cash flows are translated at the average exchange rates for the period; and the resulting translation differences are reflected as a translation adjustment in the shareholders' equity section of the balance sheet.

The main exchange rates used for translation are summarized in the following table (one unit foreign currency converted to one euro):

	12 months ended December 31, 2002		**12 months ended December 31, 2003**	
	Closing rate	*Average rate*	*Closing Rate*	*Average rate*
U.S. Dollar	0,9536	1,0580	0,7918	0,8794
Polish Zloty	0,2487	0,2591	0,2127	0,2260
Mexican Pesos	0,0918	0,1097	0,0705	0,0815
Thai Baht	0,0223	0,0246	0,0200	0,0212
RMB	0,0199	0,0218	0,0174	0,0189

The average rate is determined by taking the average of the month-end closing rates for the period.

(B) *Transactions denominated in foreign currency*

Monetary assets and liabilities denominated in foreign currencies are converted at the respective exchange rates prevailing at the balance sheet dates. The related unrealized exchange gains and losses are included under "Financial result" in the consolidated income statement, except if the assets and liabilities were hedged.

Transactions denominated in foreign currencies are converted at the exchange rate prevailing at the date of the transaction or at the rate of the applicable forward contract if hedged.

(C) *Financial instruments*

The Thomson Group enters into financial instruments to hedge foreign currency risk, interest rate risk and from time to time to hedge the market volatility of certain marketable equity investments.

Financial risk exposures are managed by Thomson's Corporate Treasury department in Paris in accordance with market conditions and in the framework of procedures established by management. Thomson enters into over-the-counter financial instruments, with a limited number of counterparts. Depending on local foreign currency regulations or practical access to markets, foreign exchange transactions are carried out by Thomson's Corporate Treasury in Paris or by the Singapore regional treasury or by the Americas regional treasury (the latter for transactions in Mexican peso). Affiliates unable to enter into foreign currency hedging operations with the Corporate Treasury because of local laws or regulations do so directly with local banks under the supervision of the Corporate Treasury and in accordance with corporate policies and procedures.

— Foreign currency risk

Thomson operates as a global company and consequently is subject to mismatches between the currencies in which sales are made and the currencies in which expenses are incurred. Moreover, the Thomson Group operates in emerging markets, which are subject to risks and uncertainties inherent in such markets, including economic and governmental instability, controls on repatriation of earnings and capital and restrictions on the means available to Thomson to hedge currency fluctuation risks.

Thomson's policy is to reduce the impact of foreign currency fluctuations on net commercial transaction exposures on a short-term basis, which corresponds to Thomson's underlying business cycle. The Thomson Group buys and sells currencies on a forward basis and buys currency options.

Foreign currency forward contracts and foreign currency options are considered as hedges for accounting purposes if they are designated to hedge the following items: accounts receivable and accounts payable amounts on the balance sheet, and anticipated commercial transactions.

The nature of the commercial products sold and the consistency of the demand for these products are such that it is reasonable to consider the anticipation of future cash flows generated by market demand as similar to firm order commitments.

Gains and losses on foreign currency instruments designated as hedges of the following year's anticipated commercial transactions are recognized as income or expense over the same period as the underlying transaction.

Foreign currency instruments that do not qualify for hedge accounting are marked-to-market and in the case of loss a provision is taken. This loss is recognized as "Financial result" in the consolidated income statements.

(D) *Net sales*

— Sale of goods and services

Revenue consists of income from all activities of consolidated subsidiaries after elimination of inter-company transactions. Revenue is recognized when ownership is transferred which generally occurs at the time of shipment.

— Warranty and returns

Estimated product warranty costs are provided for at the time of sale. The warranty provision covers all of the products that are still under warranty. The amount of the provision is determined based upon known non-recurring product issues as well as on historical experience.

Thomson accrues an estimate, at the time of sale, through its warranty reserve for all returns from its customers related either to product failures or consumer returns. Although Thomson's general policy is to not accept returns of undamaged products, Thomson may accept returns for undamaged products on a discretionary basis. The impacts of these returns have historically not been material.

- Price protection

  Price protection may be granted to customers when Thomson's retail price of a product decreases for items held in stock by the customer. Price protection programs are discretionary. Accordingly, Thomson accrues for price protection at the time allowances are probable of being granted to customers. Price protection is reflected as a deduction of sales.

- Sales incentives

  Sales incentives to customers under sales incentives programs are deducted from sales unless the following conditions are met:

  - Thomson receives an identifiable and separable benefit (goods or services) in exchange for the cash paid to the customer,
  - Thomson can reasonably estimate the fair value of the benefit, and
  - Amounts paid in excess of such identified benefit are deducted from sales.

(E) *Fixed assets*

- Software development costs are capitalized as intangible assets when they comply with the following criteria:

  — The project is clearly defined and costs are separately identified and reliably measured,

  — The technical feasibility of the software is demonstrated,

  — The software will be sold or used in-house, and

  — A potential market exists for the software, or its usefulness (in case of internal use), is demonstrated, and adequate resources required for the project are available.

Software costs thus capitalized are categorized and amortized over their economic useful lives, which usually do not exceed 3 years.

- Property, plant and equipment are carried at historical cost.

  Depreciation is computed using the straight-line or declining-balance method over the estimated useful lives of the assets or using the unit of production method when appropriate.

  Depreciation is generally applied over the following estimated useful lives of the fixed assets:

  — 20 to 40 years for buildings,

  — 1 to 12 years for plant and equipment, and

  — 4 to 10 years for other fixed assets.

  At the balance sheet dates, whenever events or changes in market conditions indicate a potential impairment of intangible assets or property, plant and equipment, the expected future cash flows (undiscounted for tangible as well as intangible with a definite useful life and discounted for intangible with an indefinite useful life) of the related assets are compared with the carrying amounts of such assets. Whenever such review indicates that there is an impairment, the carrying amount of such assets is reduced to their fair market value, such value being computed using the discounted expected future cash flows generated by these assets.

(F) *Inventories*

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) or weighted average method.

The cost of finished goods and semi-finished goods inventories includes the cost of raw materials, labor and subcontracted purchases used during production, plus an allocation of industrial overhead.

A valuation allowance is recorded when the carrying value is higher than the net realizable value.

(G) *Research and development*

Research and development costs are expensed as incurred, except software development costs, which are included in intangible assets (see paragraph E).

(H) *Cash and cash equivalents*

Cash and cash equivalents consist of cash and liquid investments with an initial maturity of three months or less.

(I) *Deferred tax*

Thomson uses the liability method of tax allocation and records deferred taxes when there is a difference between the tax and accounting basis of assets and liabilities. A valuation allowance is recorded when there is uncertainty regarding the future utilization of these temporary differences.

Tax on undistributed earnings of subsidiaries and equity companies are taken into account only when there is a planned distribution of dividends.

(J) *Pensions and retirement and termination benefits*

Retirement indemnities and post-retirement benefits are accrued over the years of service of the employees; termination indemnities are accrued when rights to those benefits accumulate, vest and payment of the benefits is probable.

(K) *Provisions*

According to regulation 00–06 of the CRC, 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.

Provisions for product warranties granted by the Group on certain products are recognized based on sales volume and past experience of the level of repairs and returns.

Restructuring reserves are accrued for when a restructuring decision to close a facility , or to reduce or relocate the workforce meets the criteria stated in the above regulation.

(L) *Other income and expense*

"Other income and expense, net" includes restructuring costs, gain or loss on disposals of fixed assets, write-off of fixed assets and any other material unusual items.

(M) *Leased assets*

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

(N) *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 parties, the duration of the joint venture and the basis on which the assets are to be realized 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 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 prorata method of accounting, less any impairment losses.

2. NON CURRENT INCOME (LOSS), NET

Non current income (loss), net presented in the Combined Statements of Revenue and Expenses for the years ended December 31, 2002 and December 31, 2003 are detailed in the following table:

	12 months ended December 31, 2003 *Euros in millions*	**12 months ended December 31, 2003** *In millions of HK Dollars*	**12 months ended December 31, 2002** *Euros in millions*	**12 months ended December 31, 2002** *In millions of HK Dollars*
Restructuring costs (ii)	(14)	(131)	(10)	(94)
Unusual items	(1)	(10)	(2)	(19)
Stand-Alone Adjustments (i)	(29)	(272)	(17)	(160)
Non current income (loss)	**(44)**	**(413)**	**(29)**	**(273)**

(i) The Standalone Adjustments represent expenses reflected as operating expenses in Thomson's consolidated Financial Statements but that Thomson believe would have been classified as other income and expenses in application of the Accounting Principles. The main item relates to the dissolution of the Thomson/Gemstar partnership described below:

In May 2002, Thomson entered into a binding memorandum of terms with Gemstar aimed at dissolving the Thomson/Gemstar partnership for the development of an electronic program guide business. This partnership required from Thomson TV Business to produce volumes of TVs with specific embedded modules. Additional manufacturing costs related to this module were subsidized by a stand alone Thomson division, separate from the TV Business.

Starting in November 2002, following the decision to dissolve the partnership, the TV division began to fully support all additional manufacturing costs until the end of the program in the first semester of 2003.

Considering that those costs were non-recurring in nature as they are related to a discontinued program, Thomson Group increased the Combined Statement of Revenue and Expenses Operating Income by Euro 5 million (HK\$47 million) and Euro 11 million (HK\$103 million) for the years ended December 31, 2002 and December 31, 2003, respectively.

(ii) In 2003 the restructuring amount include an impairment charge on Thomson TV business fixed assets for Euro 7 million recorded over the year, respectively none in 2002.

3. NOTE ON TANGIBLE FIXED ASSETS

3.1 Note on movement of tangible fixed assets and depreciation

	December 31, 2001 *Euros in millions*	Acquisition *Euros in millions*	Amortization *Euros in millions*	Disposal *Euros in millions*	Other movements (CTA*) *Euros in millions*	December 31, 2002 *Euros in millions*	Acquisition *Euros in millions*	Amortization *Euros in millions*	Disposal *Euros in millions*	Other movements (CTA*) *Euros in millions*	December 31, 2003 *Euros in millions*
Gross											
Land	14	—	—	—	(2)	12	—	—	—	(2)	10
Buildings	111	—	—	—	(15)	96	—	—	—	(14)	82
Plant & Equipments	408	22	—	(2)	(58)	370	12	—	(29)	(51)	302
Other	38	7	—	—	(9)	36	13	—	(3)	(8)	38
Total Gross Tangible Fixed Assets (“TFA”) Transferred Entities (i)	**571**	**29**	**—**	**(2)**	**(84)**	**514**	**25**	**—**	**(32)**	**(75)**	**432**
Amortization											
Land	—	—	—	—	—	—	—	—	—	—	—
Buildings	(40)	—	(7)	—	5	(42)	—	(4)	—	7	(39)
Plant & Equipments	(315)	—	(33)	2	51	(295)	—	(26)	27	44	(250)
Other	(25)	—	(3)	—	4	(24)	—	(4)	2	4	(22)
Total Amortization TFA Transferred Entities (ii)	**(380)**	**—**	**(43)**	**2**	**60**	**(361)**	**—**	**(34)**	**29**	**55**	**(311)**
Net Fixed Assets											
Land	14	—	—	—	(2)	12	—	—	—	(2)	10
Buildings	71	—	(7)	—	(10)	54	—	(4)	—	(7)	43
Plant & Equipments	93	22	(33)	—	(7)	75	12	(26)	(2)	(7)	52
Other	13	7	(3)	—	(5)	12	13	(4)	(1)	(4)	16
Net TFA Transferred Entities (iii)=(i)+(ii)	**191**	**29**	**(43)**	**—**	**(24)**	**153**	**25**	**(34)**	**(3)**	**(20)**	**121**
Non Transferred Net TFA From Transferred Entities (iv)	(21)	(4)	8	1	2	(14)	(2)	6	—	3	(7)
Transferred Net TFA From Partially Transferred Entities (v)	22	17	(15)	(2)	(1)	21	4	(11)	—	(2)	12
Total Thomson TV Business Net TFA (vi)=(iii)+(iv)+(v)	**192**	**42**	**(50)**	**(1)**	**(23)**	**160**	**27**	**(39)**	**(3)**	**(19)**	**126**

* *CTA means cumulative translation adjustment*

4. BREAKDOWN OF INVENTORIES

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Gross value				
Raw materials	41	385	81	761
Work in progress	2	19	2	19
Finished goods and purchased goods for resale	8	75	5	47
Total gross inventories	51	479	88	827
(Valuation allowance)				
Raw materials	(4)	(38)	(5)	(47)
Work in progress	(1)	(9)	—	—
Finished goods and purchased goods for resale	—	—	(1)	(9)
(Total valuation allowance)	(5)	(47)	(6)	(56)
Net inventories	**46**	**432**	**82**	**771**
Other on non transferred entities	95	894	147	1,382
Total	**141**	**1,326**	**229**	**2,153**

5. ANALYSIS OF TAX ON TRANSFERRED ENTITIES

(a) Income tax expense related to Transferred Entities

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Current income tax	(11)	(103)	(2)	(19)
Deferred income tax	1	9	(3)	(28)
Total income tax	**(10)**	**(94)**	**(5)**	**(47)**

(b) Deferred tax assets and liabilities related to Transferred Entities

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Deferred tax assets (net, by affiliates)	7	66	6	56
Valuation allowance	(6)	(57)	(6)	(56)
Deferred tax assets, net	**1**	**9**	**—**	**—**
Deferred tax liabilities	(6)	(56)	(7)	(66)
Net deferred tax liabilities	**(5)**	**(47)**	**(7)**	**(66)**

The gross deferred tax assets amount is comprised of Euros 4 million (HK$38 million) related to tax loss carry forward and Euros 3 million (HK$28 million) related to temporary differences as of year end 2003 (respectively, Euros 5 million (HK$47 million) and Euros 1 million (HK$9 million) as of year end 2002).

6. FINANCIAL RESULT RELATED TO TRANSFERRED ENTITIES

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Interest on bank loans, overdrafts and other loans wholly repayable within five years *(a)*	(1)	(10)	(2)	(19)
Other financial charges *(b)*	(10)	(94)	(13)	(122)
Other financial income *(c)*	12	113	24	226
Total finance result	**1**	**9**	**9**	**85**

(a) Such amounts are mainly related to the indebtedness of Thomson Multimedia Operations Thailand Company Limited and Thomson Multimedia India Private Limited.

(b) This amount is mainly related to exchange losses and interest on borrowings on other financial liabilities.

(c) The financial income amount is mainly related in 2003 to reevaluation of account receivables and payables at closing rates and in 2002 to borrowings and loans at closing rates.

7. INDEBTEDNESS INFORMATION

Indebtedness Statement Information (<1 year)	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Secured debt securities issued outstanding	(9)	(85)	(11)	(103)
Guaranteed terms loans outstanding	(9)	(85)	(16)	(151)
Secured bank overdraft	(1)	(9)	(1)	(9)
Total Financial Debt	**(19)**	**(179)**	**(28)**	**(263)**

Such amounts are mainly related to the indebtedness of Thomson Multimedia Operations Thailand Company Limited and Thomson Multimedia India Private Limited.

8. BREAKDOWN OF OTHER CURRENT RECEIVABLES AND OTHER CURRENT PAYABLES

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Value added tax receivable	24	225	16	150
Other	7	66	12	113
Total other current receivables	**31**	**291**	**28**	**263**

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Taxes payables	11	103	19	179
Royalties	2	19	—	—
Fixed assets acquisition balance	1	9	2	19
Other	21	198	18	169
Total other current payables	**35**	**329**	**39**	**367**
Other on non transferred entities	9	84	9	84
Total	**44**	**413**	**48**	**451**

9. FIVE HIGHEST PAID EMPLOYEES ON TRANSFERRED ENTITIES

The table below presents the five highest local paid employees related to the Transferred Entities:

	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Compensation	0.4	3.8	0.5	4.7
Benefits*	0.2	1.9	0.2	1.9
Total	**0.6**	**5.7**	**0.7**	**6.6**

* *The benefits line include pension plan contributions*

10. RESERVES FOR PENSION

10.1 Description Pension plan and other benefits

In France, China and India, Thomson pays contributions to governmental entities bearing the costs of retirement benefits. Such contributions are charged to expense as incurred.

In Germany, United States of America, Thailand, Mexico and Poland Thomson provides defined benefits to employees upon their retirement.

- *In Germany*, employees have a pension plan granted by Thomson. This non-funded plan is fully managed by Thomson.

- *In the United States*, the employees of Thomson, Inc., a major subsidiary of Thomson in the US, are covered under a defined benefit pension plan. The plan is funded by a trust fund maintained by Thomson, Inc. Thomson, Inc.'s funding policy is to contribute on an annual basis in an amount that is at least sufficient to meet the minimum requirements of the U.S. Employee Retirement Income Security Act of 1974 ("ERISA"). Benefits are equal to a percentage of the plan member's earnings each year plus a guaranteed rate of return on earned benefits until retirement.

- *In France*, contractual retirement indemnities are payable upon retirement of the employees and are due only if the employee is on Thomson payroll when he or she retires. Such indemnities are based and accrued on the employee's estimated salary at retirement date and on his / her years of service. In some subsidiaries, jubilees award are payable depending on the seniority of each employee in the group.

- *In Mexico*, some employees of RCA Componentes SA de CV are covered under a defined benefit pension plan, which is covered by plan assets. In addition in all Mexican entities' employees are entitled to a Seniority premium plan. Seniority Premiums are based on years of services and are subject to a low earnings ceiling. Seniority

Premiums are paid to employee that voluntarily retire or resign in the case they have reached a minimum of 15 years of service or in case of death, disability or laid off if related employee has reached at least 1 year of service.

- *In Thailand*, employee of Thomson Multimedia Operation Thailand Company Limited are entitled to a plan, which provide for a lump sum payment at retirement.

- *In China*, employee of Thomson Zhaowei Multimedia Company Limited are entitled to a mandatory plan which provides benefits when they retired. This scheme is a legal one and all engagements is covered by the State.

- *In India*, Thomson Multimedia India Private Limited contributes to the employee's Provident fund scheme, maintained and operated by the central government of India. At retirement date, the employee receives the accumulated contributions and actual return of assets.

- *In Poland*, employees are entitled to Jubilee Awards, Lump Sum retirement benefit and disability benefits.

10.2 Analysis of employee benefits obligation

The following tables provide the analysis of employee benefits obligation for the transferred Thomson TV Business.

	Pension and other benefits		Medical post-retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Present value of benefit obligation *(a)*	(17)	(18)	(5)	(5)	(22)	(23)
Fair value of plan assets *(b)*	5	7	—	—	5	7
Funded status (I)	**(12)**	**(11)**	**(5)**	**(5)**	**(17)**	**(16)**
Un-recognized actuarial (gain) loss (II)	4	2	1	2	5	4
Un-recognized actuarial prior service cost (III)	—	—	(1)	(1)	(1)	(1)
Reserve for employee benefits = (I)+(II)+(III)	**(8)**	**(9)**	**(5)**	**(4)**	**(13)**	**(13)**

Please find hereafter (a) the detail of the change of the benefit obligation and (b) the change of the fair value of assets.

10.2.(a) *Change in benefit obligation*

	Pension and other benefits		Medical post-retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Present value of Benefit obligation at the beginning of the year	**(16)**	**(17)**	**(5)**	**(5)**	**(21)**	**(22)**
Service cost	(1)	(1)	—	—	(2)	(2)
Interest cost	(1)	(1)	—	—	(1)	(1)
Amendment	—	—	—	—	—	—
Business combination	—	—	—	—	—	—
Plan participants contribution	—	—	—	—	—	—
Curtailment/settlement	—	—	—	—	—	—
Actuarial gain (loss)	—	(1)	—	—	—	(1)
Benefits paid	—	1	—	—	—	1
Other	1	1	1	1	2	2
Benefit obligation at the end of the year	**(17)**	**(18)**	**(5)**	**(5)**	**(22)**	**(23)**

10.2.(b) *Change in fair value of plan assets*

	Pension and other benefits		Medical post— retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Fair value at the beginning of the year	**7**	**5**	**—**	**—**	**7**	**5**
Actuarial return on plan assets	(1)	—	—	—	(1)	—
Employer contribution	—	1	—	—	—	1
Plan participant contribution	—	—	—	—	—	—
Curtailment/settlement	—	—	—	—	—	—
Business combination	—	3	—	—	—	3
Benefits paid	—	—	—	—	—	—
Others	(1)	(2)	—	—	(1)	(2)
Fair value at the end of the year	**5**	**7**	**—**	**—**	**5**	**7**

10.3. Elements of the Income Statements

Total expense for pensions and other benefits for the years ended December 31. 2002 and 2003 is detailed as follows:

	Pension and other Indemnities		Medical post-retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Service cost	1	1	1	1	2	2
Interest cost	1	1	—	—	1	1
Return on plan assets	(1)	(1)	—	—	(1)	(1)
Amortization of unrecognized prior service costs	—	—	—	—	—	—
Amortization of unrecognized gain or loss	—	—	—	—	—	—
Settlement/curtailment	—	—	—	—	—	—
Other	1	1	—	—	1	1
Total expense	**2**	**2**	**1**	**1**	**3**	**3**

10.4. Other information:

10.4(a) *Actuarial present value of benefit obligations*

	Pension and other benefits		Medical post-retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Present value of benefit obligation						
NAFTA affiliates	(10)	(9)	(5)	(5)	(15)	(14)
Other affiliates	(7)	(9)	—	—	(7)	(9)
Total	**(17)**	**(18)**	**(5)**	**(5)**	**(22)**	**(23)**

10.4.(b) *Fair value of plan assets*

	Pension and other benefits		Medical post-retirement benefits		Total plan assets	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Fair value of plan assets						
NAFTA affiliates	5	7	—	—	5	7
Other affiliates	—	—	—	—	—	—
Total	**5**	**7**	**—**	**—**	**5**	**7**

10.4.(c) *Summary of unrecognised obligations to be amortized*

	Pension and other benefits		Medical post-retirement benefits		Total benefits	
	2002	2003	2002	2003	2002	2003
			(€ in millions)			
Unrecognised (gain) or loss						
Un-recognized actuarial (gain) loss						
NAFTA affiliates	3	—	1	2	4	2
Other affiliates	1	2	—	—	1	2
Sub-total	4	2	1	2	5	4
Un-recognized actuarial prior service cost (gain)						
NAFTA affiliates	—	—	(1)	(1)	(1)	(1)
Other affiliates	—	—	—	—	—	—
Sub-total	—	—	(1)	(1)	(1)	(1)
Total unrecognised obligation	4	2	—	1	4	3

11. OFF BALANCE SHEET COMMITMENTS RELATED TO TRANSFERRED ENTITIES

Operating lease	**As of December 31, 2003** *Euros in millions*	**As of December 31, 2003** *In millions of HK Dollars*	**As of December 31, 2002** *Euros in millions*	**As of December 31, 2002** *In millions of HK Dollars*
Future minimum lease receivables				
Within one year	—	3	—	—
In the second to fifth years, inclusive	—	3	—	—
After five year	—	—	—	—
Future minimum lease payments				
Within one year	1	8	1	9
In the second to fifth years, inclusive	—	2	1	7
After five year	—	—	—	—

Cumulative operating Lease terms future payments on land and buildings	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
At cost				
Freehold	—	—	—	—
Long term leases (not less than 50 years)	—	—	—	—
Medium term leases (less than 50 years but not less than 10 years)	—	—	—	—
Short term leases (less than 10 years)	1	10	2	16
At valuation				
Long term leases	—	—	—	—

Commercial Commitments	Amount of Commitments expiring per period As of December 31, 2003 *Euros in millions*			As of December 31, 2002 *Euros in millions*		
	Less than 1 year	*> 1 and = < 5 years*	*After 5 years*	*Less than 1 year*	*> 1 and = < 5 years*	*After 5 years*
Unconditional Future Payments						
Royalties	—	—	—	—	—	—
Contingent Future Payments						
Guarantees given:						
— to suppliers	—	—	—	—	—	—
— for custom duties	2	—	—	2	—	—
— other						
Total	**2**	**—**	**—**	**2**	**—**	**—**
Commercial purchase obligation	—	—	—	—	—	—
Standby letters of credit	1	1	—	1	—	—
Other commercial commitments	2	—	—	1	2	—

Capital commitment	As of December 31, 2003 *Euros in millions*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *Euros in millions*	As of December 31, 2002 *In millions of HK Dollars*
Contracted, but not provided for				
Land and buildings	—	—	—	—
Plant and machinery	—	1	1	9
Intangible assets	—	—	—	—
Authorized, but not contracted for				
Land and buildings	—	—	—	—
Plant and machinery	—	—	—	—
Intangible assets	—	—	—	—
Contracted, but not provided for				
Capital contributions payable to jointly controlled entities	—	—	—	—
Authorized, but not contracted for				
Capital contributions payable to jointly controlled entities	—	—	—	—

Commitment related to financial instruments	As of December 31, 2003 *In million of Euros*	As of December 31, 2003 *In millions of HK Dollars*	As of December 31, 2002 *In million of Euros*	As of December 31, 2002 *In millions of HK Dollars*
Currency swaps	—	—	—	—
Forward exchange contracts	27	256	16	148
Interest rate swaps	—	—	—	—
Foreign exchange options	—	—	—	—
Total commitments given	**27**	**256**	**16**	**148**
Currency swaps	—	—	—	—
Forward exchange contracts	26	247	15	145
Interest rate swaps	—	—	—	—
Foreign exchange options	—	—	—	—
Total commitments received	**26**	**247**	**15**	**145**

12. ADDITIONAL INFORMATION

Maintenance and repair costs are expensed as incurred and amounted to Euros (3.4) million (HK$(32) million) in 2003 and Euros (4.4) million (HK$(41) million) in 2002 respectively.

Statutory audit fees related to the Transferred Entities amounted in 2003 and 2002 to Euros 0.2 million (HK$2 million).

The provisions reported in the Combined Statement of Assets and Liabilities mainly relate to warranty accruals on Non Transferred Entities.

Unaudited Combined Schedule of Cash Generated From Thomson TV Operation Before non Recurring and Tax Items:

	12 months ended December 31, 2003 *Euros in millions*	12 months ended December 31, 2003 *In millions of HK Dollars*
Operating income (loss) of Thomson TV Business	**(130)**	**(1,222)**
Depreciation of fixed assets	*31*	*291*
Decrease (increase) in inventories	42	395
Decrease (increase) in trade receivables	10	94
(Decrease) increase in trade payables	106	997
Change in net operating working capital	*158*	*1,486*
Change in Cash Generated From Thomson TV Operation Before Non Recurring and Tax Items	**59**	**555**

13. SUBSEQUENT EVENT

On January 28, 2004, Thomson and TCL signed an agreement in order to form a joint venture in the TV sector, of which Thomson will hold 33% and TCL 67%. Therefore Thomson should contribute to the joint venture its industrial TV assets. The joint venture TTE Corporation will be licensed by Thomson for certain intellectual properties (trademark and patents) and will exclusively use Thomson services for distribution of TV sets in Europe and in the US.

14. SUBSEQUENT COMBINED FINANCIAL INFORMATION

No audited Combined Financial Information has been prepared by Thomson for the Thomson TV Business in respect of any period subsequent to December 31, 2003.

C. REPORT ON HK GAAP RESTATEMENT

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

May 31, 2004

The Directors
TCL International Holdings Limited

Dear Sirs,

Capitalised terms used herein have the same meanings as defined in the circular issued by TCL International Holdings Limited (the "Company") dated May 31, 2004 (the "Circular") unless otherwise requires.

1. The combined financial information ("Combined Financial Information") of Thomson TV business as defined under note 1 of the accountants' report (the "Accountants' Report") on the Thomson TV Business at December 31, 2003 and 2002 have been audited by Barbier Frinault & Autres Ernst & Young in accordance with International Standards on Auditing and such audits are covered by their auditors' report dated May 31, 2004. An unqualified opinion has been issued on the special purpose combined statements of revenues and expenses for 2003 and 2002 and no opinion has been issued on the special purpose combined statements of assets and liabilities at December 31, 2003 and 2002.

2. The accounting principles used by Thomson for the preparation of the Combined Financial Information are set out under note 1 to the Accountants' Report and are referred to as the "Thomson Accounting Principles", which differ in certain significant aspects from accounting principles adopted by the Company ("TCL Accounting Principles") which follow the generally accepted accounting principles in Hong Kong ("HK GAAP"). A description of those differences and the unaudited combined statements of assets and liabilities as at December 31, 2003 and 2002 and the unaudited combined statements of revenue and expenses for the years ended December 31, 2003 and 2002 restated under HK GAAP are set out in Appendix I "Supplementary information on HK GAAP restatement" ("Supplementary Information") of the Circular.

As requested by the directors of the Company, with respect to the Supplementary Information, we have performed the following procedures in accordance with the International Standard on Auditing applicable to agreed-upon procedures engagements:

(i) Read the description of those differences between Thomson Accounting Principles and HK GAAP, which are included in the Appendix I of the Circular under the caption "Summary of material differences between Thomson Accounting Principles and HK GAAP" (the "Summary");

(ii) Compared the Thomson Accounting Principles and HK GAAP described in the Summary with the accounting policies adopted by Thomson as set out under note 1 to the Accountants' Report and TCL Accounting Principles as set out in the Company's 2003 annual report, respectively; and

(iii) Checked the arithmetical accuracy of the computation of the Supplementary Information.

Our work was based solely on the Combined Financial Information and other financial information made available to us by the management of the Company.

Based on our procedures, we report our findings below:

(i) We have compared the Thomson Accounting Principles described in the Summary with the accounting principles adopted by Thomson as set out under note 1 to the Accountants' Report and found them to be consistent;

(ii) We have read the description of HK GAAP described in the Summary and found it to be consistent, in all material respects, with TCL Accounting Principles which follow HK GAAP;

(iii) The Summary included all the material differences between Thomson Accounting Principles, as set out under note 1 to the Accountants' Report, and TCL Accounting Principles, as set out in the Company's 2003 annual report, which have a significant effect on the Combined Financial Information; and

(iv) The computation of the Supplementary Information is arithmetically accurate.

The agreed-upon procedures described above do not constitute an audit or a review in accordance with International Standards on Auditing and accordingly, we make no representation regarding the completeness of the GAAP differences. Had we performed additional procedures, or had we performed an audit or a review, other matters relating to the Thomson Accounting Principles and HK GAAP might have come to our attention that would have been reported to you.

Our report is solely for your information in connection with the preparation of the Circular.

Yours faithfully,
Ernst & Young
CERTIFIED PUBLIC ACCOUNTANTS
Hong Kong

D. SUPPLEMENTARY INFORMATION ON HK GAAP RESTATEMENT

The audited combined financial information (the “Combined Financial Information”) of Thomson TV Business as contained in the Accountants’ Report has been prepared in accordance with Thomson accounting policies detailed under note 1 of the Accountants’ Report, which differ in certain significant aspects from accounting principles adopted by the Company which follow HK GAAP. Differences which have a significant effect on the Combined Financial Information and the unaudited combined financial information restated under HK GAAP are set out below.

(1) Summary of Material Differences Between Thomson Accounting Principles and HK GAAP

(a) *Jointly-controlled entity*

Under HK GAAP, the share of the post-acquisition results and net assets of a jointly-controlled entity is included in the combined statement of revenue and expenses as share of loss of a jointly-controlled entity and the combined statement of assets and liabilities as interests in a jointly-controlled entity under the equity method of accounting.

Under Thomson accounting principles, Thomson’s share of the post-acquisition results and net assets of a jointly-controlled entity is proportionately consolidated in the combined statement of revenue and expenses and the combined statement of assets and liabilities under the prorata method of accounting.

(b) *Presentation of certain income and expenses items*

Under HK GAAP, financial income and finance costs are shown separately in the combined statement of revenue and expenses. Financial income and other operating expenses are shown before operating loss.

Under Thomson accounting principles, financial income and finance costs are shown net as financial result in the combined statement of revenue and expenses. Non-current loss and financial result, net are shown after operating loss.

The above differences have had no impact on the net loss for the two years ended December 31, 2003 and the net assets of Thomson TV Business as at December 31, 2002 and 2003.

(2) Unaudited Combined Financial Information under HK GAAP

The following unaudited combined statement of revenue and expenses for the year ended December 31, 2002 and 2003 (the "Relevant Period") and the unaudited combined statement of assets and liabilities ended on those dates (together the "HK GAAP Financials") of the Thomson TV Business are restated under HK GAAP based on the audited financial information disclosed in the Accountants' Report, which is reproduced in and form part of this Circular. Your attention is drawn to the basis of preparation of the financial information of the Thomson TV Business as stated in the notes to the Accountants' Report and the opinion of E&Y, Paris, as disclosed in the Accountants' Report. Your attention is also drawn to the fact that the HK GAAP Financials have not been subject to an independent audit. Accordingly, the Company does not give any representation that the HK GAAP Financials truly present the revenue and expenses during the Relevant Period and the assets and liabilities ended on those dates under HK GAAP.

**The translation of amounts from Euro into Hong Kong Dollars has been made merely for the convenience of the reader at the exchange rate of €1 equals to HK$9.4 and do not represent actual amounts in HK Dollar.*

Unaudited Combined Statement of Revenue and Expenses (Restated under HK GAAP)
Year ended December 31

	2003		2002	
	Euro Million	*HK$ Million*	*Euro Million*	*HK$ Million*
TURNOVER	1,703	16,008	2,211	20,783
Cost of sales	(1,500)	(14,100)	(1,854)	(17,427)
Gross profit	203	1,908	357	3,356
Financial income	12	113	24	226
Selling and marketing expenses	(225)	(2,115)	(279)	(2,623)
General and administrative expenses	(56)	(526)	(65)	(611)
Research and development expenses	(47)	(442)	(56)	(526)
Other operating expenses	(44)	(414)	(29)	(273)
LOSS FROM OPERATING ACTIVITIES	(157)	(1,476)	(48)	(451)
Share of loss of a jointly-controlled entity	(5)	(47)	(7)	(66)
Finance costs	(11)	(103)	(15)	(141)
LOSS BEFORE TAX	(173)	(1,626)	(70)	(658)
Tax	(10)	(94)	(5)	(47)
NET LOSS	(183)	(1,720)	(75)	(705)

Unaudited Combined Statement of Assets and Liabilities (Restated under HK GAAP)
As at December 31

	2003		2002	
	Euro Million	*HK$ Million*	*Euro Million*	*HK$ Million*
NON-CURRENT ASSETS				
Fixed assets	125	1,175	158	1,485
Intangible assets	2	19	1	9
Interests in a jointly-controlled entity	(1)	(9)	2	19
Deferred tax assets	1	9	—	—
	127	1,194	161	1,513
CURRENT ASSETS				
Inventories	140	1,316	228	2,143
Accounts receivable	277	2,604	331	3,111
Other receivables	31	291	27	254
Cash and cash equivalents	49	461	19	179
	497	4,672	605	5,687
CURRENT LIABILITIES				
Accounts payable	328	3,083	230	2,162
Other payables	43	404	47	442
Pension accruals	13	122	13	122
Provisions	27	254	49	460
Financial debts	19	179	28	263
	430	4,042	367	3,449
NET CURRENT ASSETS	67	630	238	2,238
NON-CURRENT LIABILITIES				
Deferred tax liabilities	6	57	7	66
NET ASSETS	188	1,767	392	3,685

A. SHARE CAPITAL

As at the Latest Practicable Date, the authorized share capital of the Company was HK$500,000,000 divided into 5,000,000,000 Shares of HK$0.10 each, of which 2,735,515,812 Shares were issued and fully paid up.

As at the Latest Practicable Date, the following securities convertible into Shares and issued by the Company are in issue:

(a) Global Note due 2005 bearing interest of 3% per annum in the aggregate principal amount of HK$261,000,000 upon conversion of them in full a total of 102,112,676 Shares will be issued; and

(b) Share options granted to employees of the Group pursuant to the Share Option Schemes upon the exercise of them in full a total of 52,805,500 Shares will be issued.

All the Shares currently in issue rank and which fall to be issued upon the conversion and exercise of the securities referred to in (a) and (b) above will rank pari passu in all respects with each other, including in particular, as to dividends, voting right and capital.

The Shares which fall to be issued pursuant to the terms of the Exchange Option Agreement will rank pari passu in all respects with each other and all existing Shares, including in particular, as to dividends, voting right and capital.

Save as disclosed herein, no part of the share capital of the Company is listed or dealt in on stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed in or on any other stock exchange.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss accounts of the Group for the three years ended 31 December 2003, the audited consolidated balance sheet of the Group as at 31 December 2002 and 2003, the consolidated statement of changes in equity and the consolidated cash flow statements for the two years ended 31 December 2003. The information upon which the summary is based has been extracted from the annual report of the Company for the relevant years. All the pages reference in this section are referred to the pages as set out in annual report of the Company for the year ended 31 December 2003.

TCL INTERNATIONAL HOLDINGS LIMITED
SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for 2002 have been adjusted for the effects of the retrospective changes in accounting policy affecting income tax, as detailed in note 2 to the financial statements.

	Year ended 31 December		
	2003	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
RESULTS			
TURNOVER	15,148,652	12,187,549	9,609,735
PROFIT BEFORE TAX	733,690	653,905	316,712
Tax	(84,093)	(61,213)	(25,780)
PROFIT BEFORE MINORITY INTERESTS	649,597	592,692	290,932
Minority interests	(7,748)	(19,041)	898
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	641,849	573,651	291,830
DIVIDEND			
Proposed final	272,000	184,555	75,455
EARNINGS PER SHARE			
Basis	24.21 cents	22.46 cents	11.70 cents
Diluted	23.28 cents	21.87 cents	11.64 cents
ASSETS, LIABILITIES AND MINORITY INTERESTS			
Total assets	8,669,896	7,790,107	5,775,285
Total liabilities	(4,449,566)	(4,163,739)	(2,804,839)
Minority interests	(100,079)	(60,378)	(36,508)
	4,120,251	3,565,990	2,933,938

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
TURNOVER	5	15,148,652	12,187,549
Cost of sales		(12,671,516)	(9,997,175)
Gross profit		2,477,136	2,190,374
Other revenue and gains		86,675	96,733
Selling and distribution costs		(1,397,841)	(1,294,356)
Administrative expenses		(552,617)	(504,325)
Other operating expenses		(107,307)	(135,214)
Gain on disposal of subsidiaries		1,331	4,062
PROFIT FROM OPERATING ACTIVITIES	6	507,377	357,274
Finance costs	7	(32,929)	(12,159)
Share of profits and losses of:			
Jointly-controlled entities		337,675	373,325
Associate		—	(53)
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	18	(78,433)	(29,642)
Loss on deemed disposal of interest in a jointly-controlled entity		—	(38,825)
Gain on disposal of discontinued operations of jointly-controlled entities and an associate		—	3,985
PROFIT BEFORE TAX		733,690	653,905
Tax	10	(84,093)	(61,213)
PROFIT BEFORE MINORITY INTERESTS		649,597	592,692
Minority interests		(7,748)	(19,041)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	641,849	573,651
DIVIDEND	12		
Proposed final		272,000	184,555
EARNINGS PER SHARE	13		
Basic		24.21 cents	22.46 cents
Diluted		23.28 cents	21.87 cents

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	868,919	734,262
Trademarks	15	27,744	25,910
Goodwill	16	244,539	277,949
Interests in jointly-controlled entities	18	1,653,375	1,543,143
Long term investments	19	1,682	1,682
Prepayment for the acquisition of a subsidiary		47,815	—
Deferred tax assets	28	8,855	8,098
		2,852,929	2,591,044
CURRENT ASSETS			
Inventories	20	2,441,500	2,579,118
Trade and bills receivables	21	1,941,137	1,029,005
Other receivables	23	359,569	408,413
Pledged bank deposits	24	5,199	89,340
Cash and bank balances		1,069,562	1,093,187
		5,816,967	5,199,063
CURRENT LIABILITIES			
Trade and bills payables	25	2,966,659	2,769,271
Tax payable		53,543	23,056
Other payables and accruals		684,235	612,751
Bank borrowings	26	113,929	23,845
		3,818,366	3,428,923
NET CURRENT ASSETS		1,998,601	1,770,140
TOTAL ASSETS LESS CURRENT LIABILITIES		4,851,530	4,361,184
NON-CURRENT LIABILITIES			
Bank borrowings	26	282,353	382,785
Convertible notes	27	347,000	350,000
Deferred tax liabilities	28	1,847	2,031
		631,200	734,816
MINORITY INTERESTS		100,079	60,378
		4,120,251	3,565,990

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET — (Continued)
31 December 2003

	Notes	2003 HK$'000	2002 HK$'000 (Restated)
CAPITAL AND RESERVES			
Issued capital	29	268,133	263,100
Reserves	30	3,580,118	3,118,335
Proposed final dividend	12	272,000	184,555
		4,120,251	3,565,990

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2003

	Notes	**2003** *HK$'000*	**2002** *HK$'000* *(Restated)*
Total equity at 1 January:			
As previously reported		3,558,008	2,933,938
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	28	7,982	4,458
As restated		3,565,990	2,938,396
Net gains not recognised in the profit and loss account:			
Exchange differences on translation of the financial statements of foreign entities	30	24,891	16,136
Net profit for the year attributable to shareholders		641,849	573,651
Dividend	30	(185,483)	(75,869)
Issue of shares, including share premium	29	73,117	112,585
Goodwill in capital reserve recognised in the profit and loss account	30	—	1,070
Release of goodwill on deemed disposal of a jointly-controlled entity	30	—	219
Exchange reserve realised on disposal of subsidiaries, jointly-controlled entities and an associate	30	(113)	(677)
Write off of exchange reserve	30	—	479
Total equity at 31 December		4,120,251	3,565,990

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		733,690	653,905
Adjustments for:			
Finance costs		32,929	12,159
Share of profits and losses of:			
Jointly-controlled entities		(337,675)	(373,325)
Associate		—	53
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities		78,433	29,642
Loss on deemed disposal of interest in a jointly-controlled entity		—	38,825
Gain on disposal of discontinued operations of jointly-controlled entities and an associate		—	(3,985)
Depreciation	6	161,363	159,335
Goodwill amortisation	6	33,410	33,409
Negative goodwill recognised as income	6	(654)	(1,090)
Loss on disposal of fixed assets	6	1,416	24,029
Interest income	6	(9,188)	(17,227)
Amortisation of trademarks	6	2,892	639
Impairment of a long term investment	6	—	643
Gain on disposal of subsidiaries	31(a)	(1,331)	(4,062)
Loss on cessation of a subsidiary		1,987	—
Operating profit before working capital changes		697,272	552,950
Decrease/(increase) in inventories		128,400	(661,267)
Increase in trade and bills receivables from third parties		(929,860)	(218,642)
Decrease/(increase) in prepayments, deposits and other receivables		38,332	(207,462)
Increase/(decrease) in net amounts due to related parties		148,451	(110,746)
Decrease in net amounts due to jointly-controlled entities		(11,120)	(96,774)
Increase in trade and bills payables to third parties		115,989	1,253,547
Increase in other payables and accruals		71,986	78,902
Increase in net amount due from the ultimate holding company		(24,343)	(935)
Cash generated from operations		235,107	589,573
Interest paid		(32,682)	(10,634)
Income taxes paid		(46,967)	(46,536)
Net cash inflow from operating activities		155,458	532,403

TCL INTERNATIONAL HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT — (Continued)
Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	14	(324,666)	(213,321)
Purchases of trademarks		—	(24,798)
Proceeds from disposal of fixed assets		28,748	88,758
Decrease/(increase) in pledged bank deposits		84,141	(26,228)
Prepayment for the acquisition of a subsidiary		(47,815)	—
Acquisition of subsidiaries	31(b)	—	(2,440)
Acquisition/formation of jointly-controlled entities		(14,282)	(700,061)
Acquisition of minority interests of a subsidiary		(3,000)	—
Disposal of subsidiaries	31(a)	7,251	(71,277)
Disposal of an associate		—	15,039
Disposal of jointly-controlled entities		—	35,786
Interest received		9,188	17,227
Dividend received from jointly-controlled entities		157,184	—
Net cash outflow from investing activities		(103,251)	(881,315)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		19,811	400,000
Repayment of bank loans		(30,159)	(23,665)
Proceeds from issue of share capital upon exercise of share options	29	70,117	112,585
Contribution from minority shareholders		33,962	3,000
Dividend paid	30	(185,483)	(75,869)
Dividend paid to minority shareholders		(472)	—
Net cash inflow/(outflow) from financing activities		(92,224)	416,051
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(40,017)	67,139
Cash and cash equivalents at beginning of year		1,093,187	1,021,009
Effect of foreign exchange rate changes, net		16,392	5,039
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,069,562	1,093,187
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,069,562	1,093,187

TCL INTERNATIONAL HOLDINGS LIMITED
BALANCE SHEET
31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	2,957,667	2,908,574
CURRENT ASSETS			
Other receivables	23	10,646	1,277
Cash and bank balances		115,021	51,848
		125,667	53,125
CURRENT LIABILITIES			
Tax payable		2,018	1,896
Other payables and accruals		7,719	10,071
		9,737	11,967
NET CURRENT ASSETS		115,930	41,158
TOTAL ASSETS LESS CURRENT LIABILITIES		3,073,597	2,949,732
NON-CURRENT LIABILITIES			
Convertible notes	27	(347,000)	(350,000)
		2,726,597	2,599,732
CAPITAL AND RESERVES			
Issued capital	29	268,133	263,100
Reserves	30	2,186,464	2,152,077
Proposed final dividend	12	272,000	184,555
		2,726,597	2,599,732

TCL INTERNATIONAL HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
31 December 2003

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 New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): "Income taxes"
- SSAP 35: "Accounting for government grants and disclosure of government assistance"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised below.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax asset has been recognised for the elimination of unrealised profits arising from intragroup transactions; and
- a deferred tax asset has been recognised for general provisions.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 28 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 28 to the financial statements.

SSAP 35 prescribes the accounting for government grants and other forms of government assistance. The adoption of this SSAP has had no significant impact for these financial statements on the amounts recorded for government grants. However, additional disclosures are now required and are detailed in notes 3 and 6 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. 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.

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.

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 combination" 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.

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 or 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.

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.

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.

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.

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.

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 schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes 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.

The Company's 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.

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;

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

(d) sales commission income, when the sale has been completed.

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 in 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.

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.

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 audio-visual segment manufactures audio-visual products;

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

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

(e) the discontinued white goods segment manufactured and traded home electrical appliances.

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

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

(a) *Business segments*

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

Group

	Continuing operations:								Discontinued operations:					
	Television		Computer		Audio-visual		Others		White goods		Eliminations		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Restated)*
Segment revenue:														
Sales to external customers	12,422,446	9,393,956	1,775,583	1,388,554	374,846	350,221	575,777	260,865	—	793,953	—	—	15,148,652	12,187,549
Intersegment sales	96,064	75,030	937	6,740	192,478	112,969	16,262	16,053	—	—	(305,741)	(210,792)	—	—
Total	12,518,510	9,468,986	1,776,520	1,395,294	567,324	463,190	592,039	276,918	—	793,953	(305,741)	(210,792)	15,148,652	12,187,549
Segment results	573,685	565,497	31,241	17,244	(28,506)	(46,165)	(14,613)	(51,401)	—	(72,217)	—	—	561,807	412,958
Interest income													9,188	17,227
Corporate expenses													(31,539)	(43,564)
Amortisation of goodwill	(8,475)	(8,475)	(24,661)	(24,661)	—	—	(274)	(273)	—	—	—	—	(33,410)	(33,409)
Gain on disposal of subsidiaries	—	—	—	—	—	—	1,331	—	—	4,062	—	—	1,331	4,062
Finance costs													(32,929)	(12,159)
Share of profits less losses of:														
Jointly-controlled entities	8,193	9,512	—	—	—	—	329,482	368,946	—	(5,133)	—	—	337,675	373,325
Associate	—	—	—	—	—	—	—	—	—	(53)	—	—	—	(53)
Amortisation/impairment of goodwill on acquisition of jointly-controlled entities	—	—	—	—	—	—	(78,433)	(29,642)	—	—	—	—	(78,433)	(29,642)
Loss on deemed disposal of interest in a jointly-controlled entity	—	—	—	—	—	—	—	(38,825)	—	—	—	—	—	(38,825)
Gain on disposal of discontinued operations of jointly-controlled entities and an associate	—	—	—	—	—	—	—	—	—	3,985	—	—	—	3,985
Profit before tax													733,690	653,905
Tax													(84,093)	(61,213)
Profit before minority interests													649,597	592,692
Minority interests													(7,748)	(19,041)
Net profit from ordinary activities attributable to shareholders													641,849	573,651

	Continuing operations:								Discontinued operations:					
	Television		Computer		Audio-visual		Others		White goods		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Restated)*
Segment assets	6,386,559	5,532,219	715,576	701,339	73,135	129,959	551,334	568,091	—	—	(923,102)	(781,189)	6,803,502	6,150,419
Interests in jointly-controlled entities	107,977	102,383	—	—	—	—	1,545,398	1,440,760	—	—	—	—	1,653,375	1,543,143
Unallocated assets													213,019	96,545
Total assets													8,669,896	7,790,107
Segment liabilities	7,001,970	4,159,046	294,549	389,077	75,287	133,771	282,979	646,486	—	—	(4,013,668)	(1,958,237)	3,641,117	3,370,143
Unallocated liabilities													808,449	793,596
Total liabilities													4,449,566	4,163,739
Other segment information:														
Depreciation and amortisation	166,434	155,567	26,175	27,285	2,058	2,285	81,431	31,652	—	5,166	—	—	276,098	221,955
Impairment losses recognised in the profit and loss account	—	643	—	—	—	—	—	1,070	—	—	—	—	—	1,713
Capital expenditure	140,783	203,147	30,482	2,492	409	4,048	152,992	10,937	—	20,469	—	—	324,666	241,093

(b) *Geographical segments*

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	Mainland China		Hong Kong		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	12,116,567	11,013,422	160,398	120,484	2,871,687	1,053,643	15,148,652	12,187,549
Other segment information:								
Segment assets	5,263,922	5,228,841	1,125,185	743,252	414,395	178,326	6,803,502	6,150,419
Capital expenditure	306,019	186,486	1,287	9,642	17,360	44,965	324,666	241,093

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 2003 HK$'000	Group 2002 HK$'000
Cost of inventories sold	12,671,516	9,997,175
Depreciation	161,363	159,335
Research and development costs	72,320	61,289
Less: Government grants released*	(15,425)	—
Net research and development costs**	56,895	61,289
Amortisation of trademarks***	2,892	639
Amortisation of goodwill of subsidiaries**	33,410	33,409
Negative goodwill recognised as income****	(654)	(1,090)
Impairment of a long term investment	—	643
Minimum lease payments under operating leases for land and buildings	52,006	51,405
Auditors' remuneration	3,556	2,924
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	502,809	355,649
Pension scheme contributions	26,113	19,896
	528,922	375,545
Loss on disposal of fixed assets	1,416	24,029
Bad debt provision	15,586	17,557
Exchange losses/(gains), net	(2,750)	1,576
Interest income	(9,188)	(17,227)
Commission income	—	(20,695)

* Certain government grants have been received for carrying out research activities within the Guangdong Province, Mainland China. 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.

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

*** The amortisation of trademarks is included in "Selling and distribution costs" 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 2003	Group 2002
	HK$'000	*HK$'000*
Interest on bank loans and facilities	22,439	10,634
Interest on convertible notes	10,490	1,525
	32,929	12,159

8. Directors' Remuneration

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

	Group 2003	Group 2002
	HK$'000	*HK$'000*
Fees	270	220
Other emoluments:		
Salaries, allowances and benefits in kind	3,429	3,234
Performance related bonuses	394	122
Pension scheme contributions	31	12
	4,124	3,588

Fees include HK$200,000 (2002: HK$100,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors 2003	Number of directors 2002
Nil to HK$1,000,000	8	9
HK$1,000,001 to HK$1,500,000	1	—
	9	9

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

During the year, 23,900,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. Five Highest Paid Employees

The five highest paid employees during the year included one (2002: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2002: five) non-director, highest paid employees for the year are as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	4,349	5,120
Performance related bonuses	487	410
Pension scheme contributions	12	36
	4,848	5,566

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

	Number of employees	
	2003	**2002**
Nil to HK$1,000,000	—	2
HK$1,000,001 to HK$1,500,000	4	3
	4	5

During the year, 1,080,000 share options were granted to the non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above highest paid employees' remuneration disclosures.

10. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. 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.

	2003	**2002**
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current — Hong Kong		
Charge for the year	17,685	10,000
Overprovision in prior years	(31)	—
Current — Elsewhere	59,800	38,697
Deferred *(note 28)*	(941)	(3,524)
	76,513	45,173
Share of tax attributable to:		
Jointly-controlled entities	7,580	16,040
Total tax charge for the year	84,093	61,213

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, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Mainland China		Hong Kong		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	674,841		101,088		(42,239)		733,690	
Tax at the statutory tax rate	222,697	33.0	17,690	17.5	(15,544)	36.8	224,843	30.6
Lower tax rate for specific provinces or local authority	(197,195)	(29.2)	—	—	(173)	0.4	(197,368)	(26.9)
Effect on opening deferred tax of increase in rates	—	—	(190)	(0.2)	—	—	(190)	—
Adjustments in respect of current tax of previous periods	—	—	31	—	—	—	31	—
Income not subject to tax	(8,982)	(1.3)	(1,051)	(1.0)	(379)	0.9	(10,412)	(1.4)
Expenses not deductible for tax	41,043	6.0	6,465	6.4	2,362	(5.6)	49,870	6.8
Tax losses utilised from previous periods	(695)	(0.1)	(3,750)	(3.7)	—	—	(4,445)	(0.6)
Tax losses not recognised as deferred tax assets	4,098	0.6	—	—	17,666	(41.8)	21,764	3.0
Tax charge at the Group's effective rate	60,966	9.0	19,195	19.0	3,932	(9.3)	84,093	11.5

Group — 2002

	Mainland China		Hong Kong		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	645,954		13,584		(5,633)		653,905	
Tax at the statutory tax rate	213,165	33.0	2,173	16.0	(1,972)	35.0	213,366	32.6
Lower tax rate for specific provinces or local authority	(183,979)	(28.5)	—	—	130	(2.3)	(183,849)	(28.1)
Income not subject to tax	(23,856)	(3.7)	(1,072)	(7.9)	(112)	2.0	(25,040)	(3.8)
Expenses not deductible for tax	33,817	5.2	8,548	62.9	1,065	(18.9)	43,430	6.6
Tax losses utilised from previous periods	—	—	(201)	(1.5)	—	—	(201)	—
Tax losses not recognised as deferred tax assets	11,092	1.8	195	1.4	2,220	(39.4)	13,507	2.1
Tax charge at the Group's effective rate	50,239	7.8	9,643	70.9	1,331	(23.6)	61,213	9.4

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

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$239,231,000 (2002: HK$293,486,000) (note 30).

12. Dividend

	2003 *HK$'000*	2002 *HK$'000*
Proposed final — 10 (2002: 7) HK cents per share	272,000	184,555

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

13. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$641,849,000 (2002 (restated): HK$573,651,000) and the weighted average of 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK$641,849,000 (2002 (restated): HK$573,651,000), adjusted by the reduction of interest expense of HK$10,490,000 (2002: HK$1,525,000) relating to the convertible notes. The weighted average number of shares used in the calculation is the 2,651,526,753 (2002: 2,554,562,270) shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 13,470,468 (2002: 55,356,614) shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year; and the weighted average of 136,857,676 (2002: 20,258,538) shares on the deemed conversion of all convertible notes during the year.

14. Fixed Assets

Group

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost:							
At beginning of year	412,779	64,194	438,040	177,888	48,314	54,820	1,196,035
Additions	6,947	29,478	71,765	28,013	7,934	180,529	324,666
Disposal of a subsidiary *(note 31(a))*	—	—	—	(2,707)	(436)	—	(3,143)
Disposals	(3,773)	(372)	(12,872)	(21,142)	(8,438)	(284)	(46,881)
Transfers	1,340	227	55,862	4,294	—	(61,723)	—
Exchange realignment	—	—	4,350	126	19	—	4,495
At 31 December 2003	417,293	93,527	557,145	186,472	47,393	173,342	1,475,172
Accumulated depreciation:							
At beginning of year	77,371	47,223	223,968	86,980	26,231	—	461,773
Provided during the year	21,575	22,191	83,416	27,958	6,223	—	161,363
Disposal of a subsidiary *(note 31(a))*	—	—	—	(828)	(43)	—	(871)
Disposals	(294)	(214)	(2,801)	(8,514)	(4,894)	—	(16,717)
Exchange realignment	—	—	661	39	5	—	705
At 31 December 2003	98,652	69,200	305,244	105,635	27,522	—	606,253
Net book value:							
At 31 December 2003	318,641	24,327	251,901	80,837	19,871	173,342	868,919
At 31 December 2002	335,408	16,971	214,072	90,908	22,083	54,820	734,262

An analysis of the Group's land and buildings, which are held under medium term leases, is as follows:

	2003	**2002**
	HK$'000	*HK$'000*
Hong Kong	29,845	29,845
Elsewhere	387,448	382,934
	417,293	412,779

15. Trademarks

Group

	HK$'000
Cost:	
At beginning of year	26,574
Exchange realignment	5,133
At 31 December 2003	31,707
Accumulated amortisation:	
At beginning of year	664
Provided during the year	2,892
Exchange realignment	407
At 31 December 2003	3,963
Net book value:	
At 31 December 2003	27,744
At 31 December 2002	25,910

The trademarks were acquired with the obligation of a subsidiary of the Company to maintain certain production in Germany for two years starting from September 2002.

16. 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	—
Acquisition of an additional interest in a subsidiary	—	(654)
At 31 December 2003	336,670	(654)
Accumulated amortisation/(recognised as income):		
At beginning of year	58,721	—
Amortisation provided/(recognised as income) during the year	33,410	(654)
At 31 December 2003	92,131	(654)
Net book value:		
At 31 December 2003	244,539	—
At 31 December 2002	277,949	—

At 31 December 2003, 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 (2002: HK$1,819,000), representing its cost.

17. Interests in Subsidiaries

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,148,255	1,148,255
Due from subsidiaries	1,951,270	1,760,319
Due to subsidiaries	(141,858)	—
	2,957,667	2,908,574

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.†	PRC	RMB120,000,000	70	—	Manufacture and sale of audio-visual products
Schneider Electronics GmbH	Germany	EUR2,000,000	100	100	Manufacture and sale of audio-visual products
Shenzhen TCL New Technology Co., Ltd.	PRC	HK$10,000,000	100	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 Electrical Appliance Sales Co., Ltd.	PRC	RMB30,000,000	51	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited@	Hong Kong	Ordinary HK$30,000,000	100	100	Trading of audio-visual products and components
TCL Electronics (Singapore) Pte Ltd.	Singapore	S$900,000	85	85	Trading of audio-visual products
TCL Holdings (BVI) Limited@	British Virgin Islands	US$25,000	100	100	Investment holding
TCL Information Technology Industrial (Group) Co., Ltd.@*	British Virgin Islands	US$4,500,000	100	100	Investment holding
TCL King Electrical Appliances (Huhehaote) Co., Ltd.	PRC	HK$20,000,000	100	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Co., Ltd.	PRC	HK$256,000,000	100	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Co., Ltd.†	PRC	HK$20,000,000	100	—	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Co., Ltd.	PRC	HK$10,000,000	70	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Co., Ltd.	PRC	HK$100,000,000	100	100	Manufacture of audio-visual products

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid-up capital	Percentage of equity attributable to the Company 2003 %	2002 %	Principal activities
TCL OEM Sales Limited	Hong Kong	Ordinary HK$2	100	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited (formerly known as Team Way Limited)	Hong Kong	Ordinary HK$100	100	70	Trading of audio-visual products and components
TCL Overseas Holdings Limited@	British Virgin Islands	US$1	100	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands	US$1	100	100	Trading of audio-visual products and components
TCL Retail (HK) Limited	Hong Kong	Ordinary HK$10,000	100	100	Trading of audio-visual products
TCL Technology Electronics (Huizhou) Co., Ltd.	PRC	HK$43,000,000	100	100	Manufacture and sale of audio-visual products
TCL (Vietnam) Corporation Ltd.	Vietnam	VND37,135,000,000	100	100	Manufacture and sale of audio-visual products

@ Direct subsidiaries of the Company.

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

† Established during the year.

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.

18. Interests in Jointly-Controlled Entities

	Group 2003 *HK$'000*	2002 *HK$'000*
Share of net assets	983,773	795,108
Goodwill on acquisition	678,216	756,649
Provision for impairment	(8,614)	(8,614)
	1,653,375	1,543,143

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 and 31 December 2003	784,327	3,047
Accumulated amortisation and impairment:		
At beginning of year	27,678	1,070
Amortisation provided during the year	78,433	—
At 31 December 2003	106,111	1,070
Net book value:		
At 31 December 2003	678,216	1,977
At 31 December 2002	756,649	1,977

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	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	PRC	52	57	52	Manufacture and sale of audio-visual products
Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile")	Corporate	PRC	40.8	33.3	40.8	Manufacture and sale of mobile phones
TCL Sun, Inc.	Corporate	Philippines	49	49	49	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 Global member firms.

The above table lists the jointly-controlled entities 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 jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

More than 90% of the Group's share of the results of its jointly-controlled entities was derived from TCL Mobile. The condensed summary of certain additional financial information of TCL Mobile is as follows:

Results for the year:

	2003	**2002**
	HK$'000	*HK$'000*
TURNOVER	9,019,503	7,875,762
Cost of sales	(7,237,547)	(5,724,279)
Gross profit	1,781,956	2,151,483
Other revenue and gains	27,493	26,099
Selling and distribution costs	(843,115)	(655,267)
Administrative and other operating expenses	(155,704)	(254,156)
PROFIT FROM OPERATING ACTIVITIES	810,630	1,268,159
Finance costs	(10,657)	(17,053)
PROFIT BEFORE TAX	799,973	1,251,106
Tax	(18,220)	(52,733)
NET PROFIT	781,753	1,198,373

Financial position:

	2003 *HK$'000*	2002 *HK$'000*
NON-CURRENT ASSETS	259,598	194,020
CURRENT ASSETS		
Inventories*	760,965	1,409,987
Trade receivables	392,021	76,058
Bills receivable	1,356,571	1,272,208
Cash and bank balances	858,454	629,003
Other current assets	610,280	840,584
	3,978,291	4,227,840
CURRENT LIABILITIES		
Trust receipt loans	13,851	67,643
Trade and bills payables	1,340,978	1,409,207
Other payables and accruals	776,223	1,260,498
Other current liabilities	92,610	73,944
	2,223,662	2,811,292
NET CURRENT ASSETS	1,754,629	1,416,548
NON-CURRENT LIABILITIES	—	2,456
	2,014,227	1,608,112
CAPITAL AND RESERVES		
Paid-up capital	232,215	232,215
Reserves	1,782,012	1,375,897
	2,014,227	1,608,112

* Included in the inventories are raw materials of HK$557,109,000 (2002: HK$847,466,000), work in progress of HK$78,868,000 (2002: HK$120,616,000) and finished goods of HK$124,988,000 (2002: HK$441,905,000).

19. Long Term Investments

	Group 2003 *HK$'000*	Group 2002 *HK$'000*
Unlisted equity investments, at cost	1,682	2,325
Provision for impairment	—	(643)
	1,682	1,682

20. Inventories

	Group 2003	Group 2002
	HK$'000	*HK$'000*
Raw materials	513,026	901,641
Work in progress	170,992	286,208
Finished goods	1,757,482	1,391,269
	2,441,500	2,579,118

The carrying amount of inventories carried at net realisable value included in the above balance was HK$209,600,000 (2002: Nil) as at the balance sheet date.

21. Trade and Bills Receivables

	Notes	Group 2003 *HK$'000*	Group 2002 *HK$'000*
Due from third parties:			
Trade receivable		757,822	359,866
Bills receivable		1,145,596	624,006
		1,903,418	983,872
Due from related parties	22	6,825	38,499
Due from jointly-controlled entities	22	6,551	6,634
Due from the ultimate holding company	22	24,343	—
		1,941,137	1,029,005

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 letter 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 2003	Group 2002
	HK$'000	*HK$'000*
Current to 90 days	1,779,018	543,311
91 to 180 days	130,542	454,415
181 to 365 days	22,606	21,690
Over 365 days	8,971	9,589
	1,941,137	1,029,005

22. Due from/to Related Parties/Jointly-Controlled Entities/Ultimate Holding Company

The amounts are unsecured, interest-free and are repayable within one year.

23. Other Receivables

	Group		Company	
	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments, deposits and other receivables	357,116	404,488	10,646	1,277
Dividend receivable	2,453	3,925	—	—
	359,569	408,413	10,646	1,277

24. Pledged Bank Deposits

At 31 December 2003, the Group's bank deposits of HK$5,199,000 (2002: HK$89,340,000) were pledged to secure certain bank loans (note 26) and general banking facilities granted by the banks in the PRC.

25. Trade and Bills Payables

		Group	
		2003	2002
	Notes	*HK$'000*	*HK$'000*
Due to third parties:			
Trade payable		1,788,972	1,655,730
Bills payable		985,806	1,027,234
		2,774,778	2,682,964
Due to related parties	22	191,881	75,104
Due to jointly-controlled entities	22	—	11,203
		2,966,659	2,769,271

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current to 90 days	2,211,432	2,391,738
91 to 180 days	701,627	344,983
181 to 365 days	47,095	17,780
Over 365 days	6,505	14,770
	2,966,659	2,769,271

26. Bank Borrowings

	Group	
	2003	2002
	HK$'000	*HK$'000*
Bank loans:		
Secured	943	6,630
Unsecured	395,339	400,000
	396,282	406,630

	Group 2003 HK$'000	2002 HK$'000
Bank loans repayable:		
Within one year	113,929	23,845
In the second year	94,118	94,443
In the third to fifth years, inclusive	188,235	283,389
After five years	—	4,953
	396,282	406,630
Portion classified as current liabilities	(113,929)	(23,845)
Long term portion	282,353	382,785

The secured bank loans were secured by the Group's bank deposits and land and buildings with a net book value amounting to HK$472,000 (2002: Nil) and Nil (2002: HK$10,309,000), respectively.

27. Convertible Notes

Group and Company

	HK$'000
At beginning of year	350,000
Converted to shares during the year	(3,000)
At 31 December 2003	347,000

On 8 November 2002, the Company issued convertible notes of principal amounts of HK$210 million, HK$40 million and HK$100 million to United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited, respectively. Both Go-Win Limited and United Asset Investments Limited are wholly-owned by Mr. Wong Toe Yeung, who resigned as a non-executive director of the Company on 19 July 2003.

On 22 August 2003, the Company, United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited entered into an amendment agreement (the "Amendment Agreement") to amend the terms and conditions of the convertible notes. The Amendment Agreement created global notes (the "Global Notes") representing the convertible notes, which are admitted to the global electronic clearing and settlement systems of Euroclear and Clearstream. As a result of the Amendment Agreement, the Global Notes became more freely tradable. However, the basic economic terms of the convertible notes, including interest, maturity and currency of payment as well as the conversion features of the convertible notes are unaffected by the Amendment Agreement.

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 in the principal amount of not less than HK$10,000 (2002: HK$10 million) into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment).

Conversion shares

During the year, convertible notes amounting to HK$3,000,000 were converted into 1,173,708 new shares of the Company. As at 31 December 2003, assuming full conversion of the convertible notes at the initial conversion price, the number of shares to be issued will be 135,758,999 (2002: 136,932,707), representing approximately 5.1% (2002: 5.2%) of the existing issued share capital of the Company and approximately 4.8% (2002: 4.9%) 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 any 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.

28. Deferred tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

		2003	
	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2003			
As previously reported	1,915	—	1,915
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	116	—	116
As restated	2,031	—	2,031
Deferred tax charged/(credited) to the profit and loss account during the year *(note 10)*	(615)	431	(184)
Gross deferred tax liabilities At 31 December 2003	1,416	431	1,847

Deferred tax assets

Group

	2003		
	Elimination of unrealised profits arising from intragroup transactions	**General provisions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2003			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	6,316	1,782	8,098
As restated	6,316	1,782	8,098
Deferred tax credited/(charged) to the profit and loss account during the year *(note 10)*	(1,691)	2,448	757
Gross deferred tax assets at 31 December 2003	4,625	4,230	8,855

Deferred tax liabilities

Group

	2002
	Accelerated tax depreciation
	HK$'000
At 1 January 2002	
As previously reported	1,915
Prior year adjustment:	
SSAP 12 — restatement of deferred tax	473
As restated	2,388
Deferred tax credited to the profit and loss account during the year *(note 10)*	(357)
Gross deferred tax liabilities at 31 December 2002	2,031

Deferred tax assets

Group

	2002		
	Elimination of unrealised profits arising from intragroup transactions	**General provisions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2002			
As previously reported	—	—	—
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	4,931	—	4,931
As restated	4,931	—	4,931
Deferred tax credited to the profit and loss account *(note 10)*	1,385	1,782	3,167
Gross deferred tax assets at 31 December 2002	6,316	1,782	8,098

The Group has tax losses of HK$140,187,000 (2002: HK$93,959,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there was no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

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

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax assets as at 31 December 2003 and 2002 by HK$8,855,000 and HK$8,098,000, respectively, and increase/(decrease) in the Group's deferred tax liabilities as at 31 December 2003 and 2002 by (HK$68,000) and HK$116,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been increased by HK$941,000 and HK$3,524,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK$7,982,000 and HK$4,458,000, respectively.

29. Share Capital

Shares

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Authorised:		
5,000,000,000 shares of HK$0.10 each	500,000	500,000
Issued and fully paid:		
2,681,328,559 (2002: 2,630,998,852) shares of HK$0.10 each	268,133	263,100

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

(a) The subscription rights attaching to 49,155,999 share options were exercised, resulting in the issue of 49,155,999 shares of HK$0.10 each for a total cash consideration of HK$70,117,000.

(b) 1,173,708 shares of HK$0.10 each were issued pursuant to the conversion of the Company's convertible notes amounting to HK$3,000,000 at a conversion price of HK$2.556 per share.

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

	Numbers of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January 2002	2,511,219,289	251,122	1,105,063	1,356,185
Share option exercised	119,779,563	11,978	100,607	112,585
At 31 December 2002	2,630,998,852	263,100	1,205,670	1,468,770
Share options exercised (a)	49,155,999	4,916	65,201	70,117
Conversion of convertible notes (b)	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

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 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 in 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 the shares, when aggregated with shares subject to any other scheme (including the Old Scheme), 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 (including the Old Scheme)).

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

At 31 December 2003, the number of shares issuable under share options granted under the New Scheme was 73,346,438, which represented approximately 2.7% 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					Date of grant	Exercise price	Exercise period	Price of Company's shares at date of grant#	Price of Company's shares at exercise date*
	At 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2003		HK$		HK$	HK$
Directors										
Li Dong Sheng, Tomson	12,000,000	—	—	(12,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	6,950,000	—	—	6,950,000	15 May 2003	1.550	Note 7	1.590	
	12,000,000	6,950,000	—	(12,000,000)	6,950,000					
Yuan Xin Cheng	6,000,000	—	—	(6,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	5,300,000	(5,300,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	6,000,000	5,300,000	(5,300,000)	(6,000,000)	—					
Lu Zhong Li	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.925
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Hu Qiu Sheng	5,000,000	—	—	(5,000,000)	—	3 December 1999	2.236	Note 1	3.075	
	—	4,600,000	(4,600,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.375
	5,000,000	4,600,000	(4,600,000)	(5,000,000)	—					
Yan Yong	300,000	—	—	(300,000)	—	1 June 2000	2.508	Note 2	3.200	
	200,000	—	(200,000)	—	—	2 May 2001	0.928	Note 3	1.130	1.480
	—	200,000	(66,000)	—	134,000	30 January 2003	2.114	Note 6	2.075	2.825
	—	1,550,000	(1,550,000)	—	—	15 May 2003	1.550	Note 7	1.590	2.825
	500,000	1,750,000	(1,816,000)	(300,000)	134,000					
Suen Hay Wai	—	700,000	—	—	700,000	30 January 2003	2.114	Note 6	2.075	
Wong Toe Yeung@	3,000,000	—	(1,000,000)	(2,000,000)	—	3 December 1999	2.236	Note 1	3.075	2.500
Other employees	30,000	—	—	(30,000)	—	1 June 2000	2.508	Note 2	3.200	
	9,066,000	—	(8,870,000)	(196,000)	—	2 May 2001	0.928	Note 3	1.130	1.872
	23,432,437	—	(10,434,599)	—	12,997,838	29 October 2001	0.994	Note 4	0.990	1.659
	10,000,000	—	—	—	10,000,000	4 November 2002	2.305	Note 5	2.175	
	—	50,100,000	(8,235,400)	—	41,864,600	30 January 2003	2.114	Note 6	2.075	2.900
	—	5,000,000	(4,300,000)	—	700,000	15 May 2003	1.550	Note 7	1.590	2.864
	42,528,437	55,100,000	(31,839,999)	(226,000)	65,562,438					
	74,028,437	79,000,000	(49,155,999)	(30,526,000)	73,346,438					

Note 1 The exercise period for such share options commenced from the expiry of three years from the respective commencement date of services of each grantee with the Group. Such dates ranged from 3 December 1999 to 1 December 2002, and ended on 14 May 2003.

Note 2 One-third of such share options were exercisable after the expiry of 9 months from the date of grant, a further one-third was exercisable after the expiry of 18 months from the date of grant, and the remaining one-third was exercisable after the expiry of 27 months from the date of grant, up to 14 May 2003.

Note 3 Half of such share options were exercisable after the expiry of 9 months from the date of grant, and the remaining half was exercisable after the expiry of 18 months from the date of grant, up to 14 May 2003.

Note 4 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

Note 5 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 6 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 7 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.

@ Wong Toe Yeung resigned as a non-executive director on 19 July 2003.

30. Reserves

	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
Group						
At 1 January 2002:						
As previously reported	1,105,063	64,915	309,243	(1,166)	1,129,306	2,607,361
Prior year adjustment:						
SSAP 12 — restatement of deferred tax *(note 28)*	—	—	—	—	4,458	4,458
As restated	1,105,063	64,915	309,243	(1,166)	1,133,764	2,611,819
Issue of shares upon exercise of share options	100,607	—	—	—	—	100,607
Goodwill realised on deemed disposal	—	219	—	—	—	219
Impairment of goodwill	—	1,070	—	—	—	1,070
Exchange realignment	—	—	—	16,136	—	16,136
Realised on disposal	—	—	—	(677)	—	(677)
Write off of exchange reserve	—	—	—	479	—	479
Net profit for the year	—	—	—	—	573,651	573,651
Final 2001 dividend	—	—	—	—	(414)	(414)
Proposed final 2002 divided *(note 12)*	—	—	—	—	(184,555)	(184,555)
Transfer from retained profits	—	—	118,078	—	(118,078)	—
At 31 December 2002	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335
At 1 January 2003:						
As previously reported	1,205,670	66,204	427,321	14,772	1,396,386	3,110,353
Prior year adjustment:						
SSAP 12 — restatement of deferred tax *(note 28)*	—	—	—	—	7,982	7,982
As restated	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335
Issue of shares upon exercise of share options	65,201	—	—	—	—	65,201
Issue of shares upon conversion of convertible notes	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 12)*	—	—	—	—	(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
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
Reserves retained by:						
Company and subsidiaries	1,205,670	66,204	325,469	13,725	1,127,128	2,738,196
Jointly-controlled entities	—	—	101,852	1,047	277,240	380,139
At 31 December 2002	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335

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

Certain amounts of goodwill arising on the acquisition of a subsidiary and jointly-controlled entities remain eliminated against the capital reserve as explained in notes 16 and 18 to the financial statements.

	Share premium account *HK$'000*	Capital reserve# *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Company				
At 1 January 2002	1,105,063	903,105	(65,215)	1,942,953
Issue of shares upon exercise of share options	100,607	—	—	100,607
Net profit for the year	—	—	293,486	293,486
Final 2001 dividend	—	—	(414)	(414)
Proposed final 2002 dividend *(note 12)*	—	—	(184,555)	(184,555)
At 31 December 2002	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 12)*	—	—	(272,000)	(272,000)
At 31 December 2003	1,273,754	903,105	9,605	2,186,464

\# 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.

31. (a) *Disposal of subsidiaries*

	2003 *HK$'000*	**2002** *HK$'000*
Net assets disposed of:		
Fixed assets	2,272	70,686
Inventories	9,218	121,594
Cash and bank balances	5,232	77,449
Trade and bills receivables	10,314	107,208
Due from related companies, net	—	73,370
Prepayments, deposits and other receivables	9,040	87,037
Trade and bills payables	(24,175)	(478,565)
Other payables and accruals	(749)	(53,638)
Minority interests	—	(3,031)
	11,152	2,110
Gain on disposal	1,331	4,062
Satisfied by cash	12,483	6,172

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

Cash consideration received	12,483	6,172
Cash and bank balances disposed of	(5,232)	(77,449)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	7,251	(71,277)

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

(b) *Acquisition of subsidiaries*

	2002
	HK$'000
Net assets acquired:	
Fixed assets	2,801
Goodwill	5,312
Inventories	400
Cash and bank balances	862
Trade and bills receivables	3
Prepayments, deposits and other receivables	2,616
Trade and bills payables	(97)
Other payables and accruals	(2,873)
Minority interests	(4,632)
	4,392
Negative goodwill on acquisition	(1,090)
	3,302
Satisfied by:	
Cash	3,302

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

	2002
	HK$'000
Cash consideration	(3,302)
Cash and bank balances acquired	862
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(2,440)

(c) *Major non-cash transaction*

In the prior year, the Group acquired an additional 13.8% equity interest in TCL Mobile with a consideration of HK$764,860,000. The Group funded the acquisition partly by the issuance of convertible notes of HK$350,000,000.

32. 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 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	38,950	37,142
In the second to fifth years, inclusive	26,907	40,163
After five years	345	727
	66,202	78,032

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

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	807	—
In the second to fifth years, inclusive	628	—
After five years	74	—
	1,509	—

33. Commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Contracted, but not provided for	187,436	169,772
Authorised, but not contracted for	—	10,854
	187,436	180,626

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

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Contracted, but not provided for	4,418	1,522

On 3 November 2003, the Company entered into a binding memorandum of understanding ("MOU") with Thomson S.A. ("Thomson") and TCL Corporation in connection with the possible establishment of a joint venture company to combine and manage the respective television businesses and assets of the Group and Thomson. The MOU acts for the legally binding obligations of the Company to negotiate the definite agreements in respect of the joint venture, one of which was signed subsequent to the balance sheet date (note 36). Details of the MOU are set out in the Company's announcement dated 3 November 2003.

34. Contingent Liabilities

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

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills discounted with recourse	64,882	1,086,659	—	—
Guarantees given to banks in connection with banking facilities granted to subsidiaries	—	—	839,942	818,240
Guarantees given to a bank in connection with banking facilities granted to a jointly-controlled entity	—	—	3,673	—
	64,882	1,086,659	843,615	818,240

As at 31 December 2003, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$391 million (2002: HK$421 million).

In addition, the Group's share of the jointly-controlled entities' own contingent liabilities at the balance sheet date, not included above, was as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Bills discounted with recourse	—	341,267

35. 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	**2003** *HK$'000*	**2002** *HK$'000*
Jointly-controlled entity:			
Sales of raw materials	(i)	1,356,348	203,977
Purchases of raw materials	(ii)	5,252	39,377
Purchase of finished goods	(ii)	1,469,536	—
Sales commission income	(iii)	—	20,695
Subcontracting fee expense	(v)	—	15,087
Minority shareholders of subsidiaries:			
Sales of finished goods	(vi)	—	43,115
Rental expenses	(vii)	—	1,585
Companies controlled by the ultimate holding company:			
Sales of raw materials	(i)	9,619	1,287
Purchases of raw materials	(ii)	434,641	342,122
Purchases of finished goods	(ii)	25,967	3,623
Sales handling fee income	(iv)	9,370	3,712
Subcontracting fee expense	(v)	4,301	—
Contract fee expense	(viii)	29,555	29,004
Cash discounts	(ix)	12,728	—
Company controlled by a jointly-controlled entity:			
Sales of raw materials	(i)	31,575	28,767
Purchases of raw materials	(ii)	77,787	78,821

Notes:

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

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

(iii) In 2002, the sales commission was calculated at 10% of the retail price of the products sold.

(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) In 2002, the Group sold its finished goods at an average mark-up of 2%.

(vii) The rent was determined with reference to open market rentals.

(viii) 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.

(ix) 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%.

36. Post Balance Sheet Event

On 28 January 2004, the Company entered into an agreement (the "Combination Agreement") with Thomson and TCL Corporation in relation to the establishment of a joint venture company, TCL-Thomson Electronics Limited ("TTE"). The Combination Agreement provides that:

(a) The Company and Thomson will contribute their respective TV businesses and assets to TTE.

(b) The Company is required to contribute into TTE its entire TV business including all its fixed assets and net working capital associated with its TV business. The contribution will also include TCL Corporation's 100% interest in Inner-Mongolia TCL Electrical Appliance Company Limited and 70% interest in TCL Digital Science and Technology (Wuxi) Company Limited (the "Wuxi and Inner-Mongolia Assets"). Therefore, the Company is required to acquire Wuxi and Inner-Mongolia Assets from TCL Corporation and contribute them into TTE.

(c) Thomson is required to contribute into TTE certain of its business units engaging primarily in TV manufacturing and located in Mexico, India and Poland etc., three research and development centres located in Germany, U.S. and India, certain fixed assets including production equipment and certain current assets and liabilities relating to its TV business.

(d) In consideration of the contribution by the Company and Thomson of their respective TV businesses and assets (including the Wuxi and Inner-Mongolia Assets), TTE will issue new shares representing 67% and 33% of the enlarged issued share capital of TTE immediately following closing of the Combination Agreement ("Closing") to the Company and Thomson, respectively.

(e) The obligations of the Company and Thomson under the Combination Agreement are subject to fulfillment or waiver of a number of conditions on or prior to Closing, including the approval by the shareholders of the Company of the Combination Agreement and the transactions contemplated thereunder and execution of a number of transaction documents stipulated under the Combination Agreement (the "Transaction Documents"). The Transaction Documents include, among others, the Exchange Option Agreement and a number of operation agreements to be entered into between TTE and the Thomson group or the TCL Corporation group concerning the future operation of TTE.

(f) The Exchange Option Agreement will involve the Company granting an irrevocable option to Thomson to exchange its shares in TTE for the new shares of the Company, which will become exercisable under certain circumstances but no later than 18 months from Closing.

Details of the Combination Agreement are set out in the Company's announcement dated 30 January 2004.

37. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

In addition, research and development costs of HK$ 61,289,000 in the profit and loss account for the year ended 31 December 2002 have been reclassified from administrative expenses to other operating expenses to conform with the current year's presentation. In the opinion of the directors, this classification would better reflect the results of the Group.

C. FINANCIAL AND TRADING POSITION

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, being the date to which the latest published audited consolidated financial statements of the Company were made up.

D. INDEBTEDNESS

As at the close of business on 31 March 2004, being the latest practicable date for ascertaining information regarding this indebtedness statement, the Group had outstanding secured bank loans of approximately HK$1 million and unsecured bank loans of approximately HK$362 million. The secured bank loans were secured by the Group's bank deposits amounting to HK$0.5 million. In addition, as at 31 March 2004, the Group had outstanding convertible notes amounting to HK$266 million and contingent liabilities in respect of bills discounted with recourse amounting to HK$65 million.

Save as aforesaid and apart from intra-group liabilities, no companies within the Group had outstanding at the close of business on 31 March 2004 any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credit or any guarantees or other contingent liabilities.

Pursuant to the terms to the Combination Agreement, no companies that constitute the Thomson TV Business will contribute to TTE any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptances or acceptance credit or any guarantees or other contingent liabilities.

E. WORKING CAPITAL

The Directors are of the opinion that, having regarded to the bank and other facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for the next 12 months from the date of the Circular.

F THE PROFORMA STATEMENT OF NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is the proforma statement of the unaudited net tangible assets of the Group, as enlarged by the Combination and adjusted by the following items on the basis presented below:

	HK$'000
Unaudited consolidated net tangible assets of the Group as at 31 March 2004	3,548,047
Add: Estimated net tangible assets of Thomson to be injected into TTE attributable to the Group pursuant to the Combination Agreement *(note 1)*	1,372,964
Less: Dilution of net tangible asset of the Group pursuant to the Combination Agreement *(note 1)*	(675,549)
Issues of shares after 31 March 2004 pursuant to the exercise of:	
— share options	1,629
— convertible notes	5,000
Final dividend of the Group paid before the Closing Date	(272,000)
	3,980,091
Less: Goodwill arising on the consolidation of Wuxi and Inner Mongolia Assets *(note 2)*	(40,418)
Unaudited adjusted proforma combined net tangible assets of the Group as enlarged by the Combination after the Closing Date	3,939,673

Note 1 As the TV business of the Group and that of the Thomson Group will remain in full operation at all times and the actual amount of net tangible assets to be contributed is not ascertainable until Closing, the estimated amount of net tangible assets to be injected by the Group is estimated based on the assets of the Group as at 31 March 2004, taking into account the terms of the Combination Agreement. The amount of net tangible assets to be injected by Thomson is based on the net asset value of the fixed assets of the Thomson TV Business as at 31 December 2003, and other tangible assets to be contributed by Thomson to TTE pursuant to the terms of the Combination Agreement.

Note 2 The amount of goodwill on consolidation will be determined on the date of completion of the Acquisition when a further review of the value of the underlying assets of the Enlarged Group will be performed. The unaudited adjusted proforma combined net tangible assets of the Enlarged Group will be increased by the amount of goodwill so allocated to the underlying assets of the Enlarged Group.

1. RESPONSIBILITY STATEMENT

The Circular includes particulars given in compliance with the Listing Rules for the purpose of providing information with regard to the Group. The information contained in the Circular relating to the Group is supplied by the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than that relating to the Thomson Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts not contained in the Circular the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

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

Name of directors	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Li Dong Sheng, Tomson	Directly beneficial owner	25,156,000	0.9
Suen Hay Wai	Directly beneficial owner	132,000	0.005

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

Name of directors	Capacity and nature of interest	Number of underlying shares held
Yan Yong	Directly beneficially owned	134,000
Suen Hay Wai	Directly beneficially owned	468,000
Zhao Zhong Yao	Directly beneficially owned	300,000

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

Name of directors	**Name of associated corporation** *(Note)*	**Relationship with the Company**	**Capacity and nature of interest**	**Percentage of the associated corporation's issued share capital**
Li Dong Sheng, Tomson	TCL Corporation	Controlling shareholder of the Company	Directly beneficially owned	5.59
Lu Zhong Li	TCL Corporation	Controlling shareholder of the Company	Directly beneficially owned	0.91
Hu Qiu Sheng	TCL Corporation	Controlling shareholder of the Company	Directly beneficially owned	0.74
Zhao Zhong Yao	TCL Corporation	Controlling shareholder of the Company	Directly beneficially owned	0.25

Note: TCL Corporation held 1,482,831,289 shares in the Company through its wholly-owned subsidiary, T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries"). TCL Corporation is an associated corporation by virtue of its being a controlling shareholder of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(b) Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or were directly or indirectly interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

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

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
T.C.L. Industries Holdings (H.K.) Ltd.	Directly beneficially owned	1,482,831,289 *(Note 1)*	54.2
TCL Corporation	Through a controlled corporation	1,482,831,289 *(Note 1)*	54.2
Huizhou Investment Holdings Limited	Through a controlled corporation	1,482,831,289 *(Note 2)*	54.2
J.P. Morgan Chase & Co.	Directly beneficially owned	213,889,900	7.8

Note 1: TCL Industries is a direct wholly-owned subsidiary of TCL Corporation and accordingly, the shares in which TCL Industries is shown to be interested are also the shares in which TCL Corporation is interested.

Note 2: Huizhou Investment Holdings Limited held 40.97% interest in TCL Corporation and accordingly, the shares in which TCL Corporation is shown to be interested are also the shares in which Huizhou Investment Holdings Limited is interested.

(ii) *Long positions in shares of subsidiaries of the Company*

Name of subsidiary	Name of substantial shareholder	Percentage of holding
Guangzhou Digital Rowa Technology Co., Ltd. (廣州數碼樂華科技有限公司)	Science City Development Public Co., Ltd. (南方科學城發展股份有限公司)	30
Henan TCL — Melody Electronics Co., Ltd. (河南 TCL — 美樂電子有限公司)	Henan Ancai Melody Electronic Co., Ltd. (河南安彩集團美樂電子有限公司)	48
Shenzhen TCL Industrial Institute Limited (深圳市 TCL 工業研究院有限公司)	TCL Corporation	35
TCL Electrical Appliance Sales Co., Ltd. (惠州 TCL 電器銷售有限公司)	TCL Corporation	49

Name of subsidiary	Name of substantial shareholder	Percentage of holding
TCL Electronics (Singapore) Pte Ltd.	Dragoncom Shenzhen Investment Ltd. (深圳市浩龍投資有限公司)	15
TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL 王牌電器(無錫)有限公司)	Wuxi Electronic Instrument Operation Company Limited (無錫市電儀資產經營有限公司)	30
TCL Digital Technology (Beijing) Co., Ltd. (TCL 數碼科技(北京)有限公司)	Liu Dong Yuan Cheng Fei	29.8 10.2

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of subsidiaries of the Company or any options in respect of such capital.

3. INTERESTS IN CONTRACT OR ARRANGEMENT AND ASSETS

(a) Mr. Albert Thomas da Rosa, Junior, an independent non-executive Director, is a partner of Cheung, Tong & Rosa, legal advisers to the Company as to Hong Kong law. Cheung, Tong & Rosa will receive usual professional fees in connection with their services provided in relation to the entering into of the Combination Agreement and the transactions contemplated thereunder.

(b) Save as disclosed, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

(c) As at the Latest Practicable Date, Commerzbank had no shareholding in any members of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(d) As at the Latest Practicable Date, none of the Directors nor Commerzbank was interested, directly or indirectly, in any assets which had since 31 December 2003 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

4. DIRECTORS' SERVICE CONTRACTS

(a) The Group

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(b) TTE

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with TTE or any of its subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. EXPERT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in the Circular:

Name	Qualification	Date of opinion	Nature of opinion or advice
Commerzbank	A licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)	31 May 2004	Letter of advice to the Independent Board Committee
Barbier Frinault & Autres Ernst & Young ("Ernst & Young Paris")	Professional Accountants registered with the French Institute of the Professional Accountants (Ordre des Experts Comptables)	31 May 2004	Accountants' Report on the Thomson TV Business
Ernst & Young Hong Kong	Professional Accountants under the Professional Accountants Ordinance	31 May 2004	Review of Financial information of Thomson TV Business

Each of Commerzbank, Ernst & Young Paris, and Ernst & Young Hong Kong has given and has not withdrawn their respective written consent to the issue of the Circular with the inclusion of their respective opinion or advice above-mentioned and reference to its name, in the form and context in which they appear.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of the Circular and are or may be material:

(a) On 10 June 2002, the Company, T.C.L. Industries Holdings (H.K.) Ltd. and TCL Corporation entered into a variation deed to vary the deed of non-competition executed by TCL Corporation and TCL Industries in favour of the Company on 15 November 1999 (the "Non-competition Deed"), such that TCL Corporation and TCL Industries may engage in certain activities which are originally restricted under the Non-competition Deed.

(b) On 26 September 2002, TCL Holdings (BVI) Limited and Mate Fair Group Limited entered into a conditional sale and purchase agreement pursuant to which TCL Holdings (BVI) Limited agreed to purchase a 13.8% equity interest in TCL Mobile at a cash consideration of approximately RMB811 million (equivalent to approximately HK$765 million). The consideration for the acquisition was determined on the basis of guaranteed profit of RMB840 million (equivalent to approximately HK$792 million) of TCL Mobile for the year ended 31 December 2002 ("New Guaranteed Profit") and an price/earning multiple of 7 times. The acquisition was completed on 8 November 2002 and the New Guaranteed Profit was fully met. Details of the transaction are contained in the circular to the shareholders dated 16 October 2002.

(c) On 26 September 2002, the Company, Go-Win Limited, United Asset Investments Limited and Nam Tai Electronics, Inc. entered into a conditional subscription agreement in connection with the issue of the 3% guaranteed convertible notes due in 2005 with an aggregate principal amount of HK$350 million (the "Notes"), details of which are contained in the circular to the shareholders dated 16 October 2002.

(d) On 18 June 2003, TCL Information Technology (Group) Company Limited, a wholly-owned subsidiary of the Company disposed of its 100% interest in TCL 網絡設備深圳有限公司 to TCL Communication Equipment Share Company Limited ("TCL Communication") at a cash consideration of approximately RMB13 million (equivalent to approximately HK$12 million). TCL Communication is a non-wholly-owned subsidiary of TCL Corporation, the ultimate holding company of the Company.

(e) On 22 August 2003, the parties to the subscription agreement for the issue of the Notes, namely the Company, United Asset Investments Limited, Nam Tai Electronics, Inc. and Go-Win Limited, entered into an amendment agreement (the "Amendment Agreement") to amend the terms and conditions of the Notes. The Amendment Agreement created the Global Notes representing for the Notes, which are admitted to the global electronic clearing and settlement systems of Euroclear and Clearstream. As a result of the Amendment Agreement, the Global Note became more freely tradable. However, the basic economic terms of the Notes, including interest, maturity and currency of payment as well as the conversion features of the Notes are unaffected by the Amendment Agreement.

(f) On 3 November 2003, the Company, TCL Corporation and Thomson S. A. entered into a Memorandum of Understanding in respect of the combination of the respective TV and DVD businesses and assets of the Company and Thomson S. A.

(g) On 28 January 2004, the Company, TCL Corporation and Thomson S. A. entered into a combination agreement in respect of the combination of the respective TV businesses and assets of the Company and Thomson S. A.

7. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80 of the articles of association of the Company, at any general meeting a poll may be demanded in respect of a resolution put to the vote at the meeting by:

(a) the chairman of meeting; or

(b) at least five members present in person or by proxy and entitled to vote;

(c) any member or members present in person (or in the case of a member being a corporation, by its authorized representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(d) any member or members present in person (or in the case of a member being a corporation, by its authorized representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums on the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

9. MISCELLANEOUS

The registered office of the Company in Hong Kong is at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong.

The Hong Kong branch share registrar of the Company is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

The Company Secretary of the Company is Ms. Pang Siu Yin who is a practicing solicitor in Hong Kong. The qualified accountant of the Company is Ms. Lam Man Ying who is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong 2 June 2004 to 2 July 2004 (both days inclusive):

(a) the Memorandum of Association and Articles of Association of the Company;

(b) material contracts referred to in paragraph 6 above;

(c) the Combination Agreement;

(d) the Inner Mongolia Agreement;

(e) the Wuxi Agreement;

(f) the Exchange Option Agreement;

(g) the Call Option Agreement;

(h) the DVD Option Agreement;

(i) the agreements in respect of Relevant Continuing Connected Transaction referred to in the Sections headed "Non-Exempt Thomson Continuing Connected Transaction" and "Non-Exempt TCL Corp Continuing Connected Transactions";

(j) the Accountants' Report on Thomson TV Business as set out in Appendix I to the Circular;

(k) the report on the restatement of the Accountants' Report on Thomson TV Business as set out above;

(l) the letter from Commerzbank, the text of which is set out on pages 54 to 86 of the Circular;

(m) the consent letter of Commerzbank as referred to in paragraph 5 above;

(n) the consent letter from Ernst & Young Paris as referred to in paragraph 5 above;

(o) the consent letter from Ernst & Young Hong Kong as referred to in paragraph 5 above; and

(p) the annual report of the Company for each of the year ended 31 December 2002 and 2003.

TCL INTERNATIONAL HOLDINGS LIMITED

TCL 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of TCL International Holdings Limited (the "Company") will be held at 2:00 p.m. on Friday, 2 July 2004 at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions (with or without modification) (capitalized items in this notice shall have the same meanings as defined in the circular of the Company dated 31 May 2004 (the "Circular") unless the context otherwise requires):

ORDINARY RESOLUTIONS

1. "**THAT**

(a) the establishment of TTE Corporation (as described in the Circular) and the combination of the respective TV businesses and assets of the Group (excluding the contribution of the Wuxi and Inner Mongolia Assets acquired by the Group to TTE Group) and the Thomson Group pursuant to the Combination Agreement (a copy of which has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for the purpose of identification) be and are hereby approved;

(b) the transactions contemplated under the Combination Agreement excluding the contribution of the Wuxi and Inner Mongolia Assets acquired by the Group to TTE Group but including the execution, entry into and performance of the Transaction Documents to which the Group (including the TTE Group) is a party be and are hereby approved and ratified; AND

(c) the board of directors (the "Board") of the Company (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with (a) and (b) above and to make and agree such non-material variations to the terms of any of such agreements and any other document in connection with (a) and (b) above as the Board in its discretion considers to be desirable and in the interests of the Company."

2. "**THAT**

   (a) the acquisition of the Wuxi and Inner Mongolia Assets by the Group pursuant to the Wuxi Agreement and the Inner Mongolia Agreement (a copy of each of them has been produced to the meeting and marked "B" and "C" respectively and initialed by the chairman of the meeting for the purpose of identification) be and are hereby approved and ratified; AND

   (b) the contribution by the Group to TTE Group of the Wuxi and Inner Mongolia Assets to be acquired by the Group from TCL Corp Group pursuant to the Combination Agreement be and are hereby approved; AND

   (c) the Board (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of (a) and (b) above, or any of them, and the transactions contemplated by each of them, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

3. "**THAT** conditional upon the passing of Resolution No. 1 above, the grant to Thomson of the Exchange Option pursuant to the Exchange Option Agreement (a copy of which has been produced to the meeting marked "D" and signed by the chairman of the meeting by way of identification and is disclosed in the Circular) and the issue and allotment of the Shares which fall to be issued by the Company upon the exercise of the Exchange Option by Thomson be and are hereby approved AND the Board (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the Exchange Option Agreement, and the transactions contemplated thereunder, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

4. "**THAT** conditional upon the passing of Resolution No. 1 above, the grant to the Company of the Call Option by Thomson pursuant to the Call Option Agreement (a copy of which has been produced to the meeting marked "E" and signed by the chairman of the meeting by way of identification and is disclosed in the Circular) and the exercise of the Call Option at the sole discretion of the Board be and are hereby approved AND the Board (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the Call Option Agreement and exercise of the Call Option (if applicable), and the transactions contemplated thereunder, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

5. "**THAT** conditional upon the passing of Resolution No. 1 above, the grant to TTE of the DVD Option by Thomson pursuant to the DVD Option Agreement (a copy of which has been produced to the meeting marked "F" and signed by the chairman of the meeting by way of identification and is disclosed in the Circular) and the exercise of the DVD Option at the sole discretion of the Board be and are hereby approved AND the Board (or any

director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the DVD Option Agreement and exercise of the DVD Option (if applicable), and the transactions contemplated thereunder, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

6. "**THAT** conditional upon the passing of Resolution No. 1 above, the agreements constituting the non-exempt Thomson continuing connected transactions (as described in the paragraph headed "Non-exempt Thomson Continuing Connected Transactions" in the Circular) to be entered into between TTE and the Thomson Group be and are hereby approved AND the fixing of the respective Caps of the non-exempt Thomson continuing connected transactions as disclosed in the Circular be and are hereby approved AND the Board (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the agreements referred to above, or any of them, and the transactions contemplated by each of them, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

7. "**THAT** conditional upon the passing of Resolution No. 1 above, the agreements constituting the non-exempt TCL Corp continuing connected transactions as described (in the paragraph headed "Non-exempt TCL Corp Connected Transactions" in the Circular) to be entered into between TTE and the TCL Corp Group be and are hereby approved AND the fixing of the respective Caps of the non-exempt TCL Corp continuing connected transactions as disclosed in the Circular be and are hereby approved AND the Board (or any director of the Company) be and are hereby authorized to do whatever acts and things they may consider necessary or desirable or expedient for the purpose of, or in connection with, the implementation of the agreements referred to above, or any of them, and the transactions contemplated by each of them, and to make and agree such non-material variations to the terms of any of such agreements and any other document referred to in any of them as the Board in its discretion considers to be desirable and in the interests of the Company."

By order of the Board
Li Dong Sheng, Tomson
Chairman

Hong Kong, 31 May 2004

As at the date of this notice, the board of Directors is composed of Mr. Li Dong Sheng, Ms. Lu Zhong Li, Mr. Hu Qiu Sheng, Mr. Zhao Zhong Yao, Mr. Yan Yong, Mr. Suen Hay Wai as executive Directors and Mr. Albert Thomas da Rosa, Junior and Mr. Hong Fong Ming as an independent non-executive Directors.

Notes:

1. The register of members of the Company will be closed on Friday, 2 July 2004, on which no share transfers will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting, all transfers of Shares (with the relevant share certificates) must be lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on Wednesday, 30 June 2004.

2. Any Shareholder entitled to vote at the Extraordinary General Meeting is entitled to appoint one (1) or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. Shareholders must appoint a proxy in writing. Such instrument should be signed by the person appointing the proxy or by such person's authorised representative. If the form of proxy is signed by another person so authorized by the shareholder, the power of attorney or other authorising document must be certified by a notary. The notarially certified power of attorney or other authorising document together with the proxy form must be returned to the Registered Office of the Company not later than 48 hours prior to the commencement of the Extraordinary General Meeting. The completion and deposit of a form of proxy will not preclude any shareholder from attending and voting at the Extraordinary General Meeting.

3. Each shareholder (or his/her proxy) shall be entitled to one vote for each share held. If a shareholder has appointed more than one proxy to attend the meeting, the voting rights can only be exercised by way of poll.

4. The votes for approving Resolution Nos. 2 to 7 must be taken by poll.