THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this 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 Multimedia Technology Holdings Limited, you should at once hand this 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.

TCL 多媒體科技控股有限公司

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

CONNECTED TRANSACTIONS
NORTH AMERICA TRANSFER AGREEMENT
EUROPEAN MASTER TRANSFER AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
RELATED AGREEMENTS

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

COMMERZBANK

Commerzbank AG Hong Kong Branch

A letter from the Board is set out on pages 7 to 27 of this circular. A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from Commerzbank, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 59 of this circular.

A notice convening the extraordinary general meeting of TCL Multimedia Technology Holdings Limited to be held at 11:00 a.m. on 18 August 2005 at Chatham Room, 7/F, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong is set out on pages 67 and 68 of this 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 appointed for the holding of such meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment thereof should you so wish.

2 August 2005

CONTENTS

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

"Agency Agreements"	the NA Agency Agreement and the EMEA Agency Agreement
"Amended Angers Agreement"	Amended and Restated Angers Agreement to be entered into between Thomson and TTE
"Angers Factory"	the factory operated by Thomson for the production of TV products, sub-assemblies and modules and located at Angers, France
"Annual Caps"	the proposed annual caps of the Continuing Connected Transactions for the three years ended 31 December 2007 as set out under the paragraph headed "Proposed Annual Caps for Continuing Connected Transactions" of the section headed "Letter from the Board" in this circular
"Board"	the board of Directors
"Closing Date"	the fifteenth business day after the day on which all the conditions precedent for the Closing have been satisfied or waived or such other date as the Group and Thomson Group may agree
"Closing"	the closing of the transactions contemplated under the Transfer Agreements
"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, details of which are set out in the Merger Circular
"Company"	TCL Multimedia Technology Holdings Limited (previously known as 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
"Continuing Connected Transactions"	the transactions contemplated under the Related Agreements (save for Reimbursement Agreement Amendment as it is an one-off connected transaction)
"Directors"	the directors of the Company
"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 (as defined in the Trademark Agreement)
"EGM Notice"	the notice convening the EGM set out on pages 67 and 68 of this circular

"EGM"	the extraordinary general meeting of the Company to be held at 11:00 a.m. on 18 August 2005 at Chatham Room, 7/F, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong, for the purpose of considering and if thought fit, approving the resolutions proposed in this circular
"EMEA Agency Agreement"	Europe, Middle East and Africa Sales and Marketing Agency Agreement dated 30 July 2004 entered into between TTE and Thomson
"Euro" or "€"	the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union and the Treaty of Amsterdam or otherwise participates in European economic and monetary union in a manner and with similar effect to such third stage
"Europe After Sales Agreement"	Europe After Sales Services Agreement to be entered into between TTE and Thomson Sales Europe at Closing
"Europe Business Activities"	the product sales, marketing and management activities for TV that are currently performed by Thomson Europe Group under the EMEA Agency Agreement
"European Master Transfer Agreement"	European Master Transfer Agreement dated 12 July 2005 entered into among the Company, TTE and Thomson
"Exchange Option Agreement"	Exchange Option Agreement dated 30 July 2004 entered into between the Company and Thomson, details of which are set out in the Merger Circular dated 30 July 2004
"Exchange Option"	the exchange of shares between the Company and Thomson as contemplated under the Exchange Option Agreement
"Existing Angers Agreement"	the Agreement relating to Thomson Television Angers dated 30 July 2004 entered into between Thomson and TTE, details of which are set out in the Merger Circular
"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

"IFA" or "Commerzbank"	Commerzbank AG, acting through its Hong Kong branch, a licensed bank registered with the Hong Kong Monetary Authority and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), 4 (advising on securities), and 6 (advising on corporate finance) regulated activities as set out in Schedule 5 of the SFO, and the independent financial adviser to the Independent Board Committee in relation to the Transactions and the Continuing Connected Transactions
"Independent Board Committee"	a board of committee comprising, Tang Guliang, Wang Bing and Hon Fong Ming, the independent non-executive Directors having been appointed to advise the Independent Shareholders in respect of the Transactions and the Continuing Connected Transactions
"Independent Shareholders"	in respect of a connected transaction and continuing connected transaction proposed to be voted on at a general meeting of the Company, shareholders that are not required under the Listing Rules to abstain from voting to approve such transactions
"Independent Third Parties"	third parties that are not connected to any Director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them
"Latest Practicable Date"	26 July 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"LIBOR"	the London Inter-Bank Offering Rate
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange from time to time
"Materials"	the title to, interests, risks and liabilities in all products, raw materials, works in progress at the Angers Factory
"Merger Circular"	The circular of the Company dated 31 May 2004 relating to the Combination Agreement and establishment of TTE
"Merger Closing Date"	30 July 2004, the closing date of the Combination Agreement for the establishment of TTE
"NA Agency Agreement"	North America Sales and Marketing Agency Agreement dated 30 July 2004 entered into between TTE and Thomson Inc., a wholly owned subsidiary of Thomson, details of which are set out in the Merger Circular
"NA Business Activities"	the business activities comprising of: (a) the product sales, marketing and management activities; and (b) the design and styling activities, which are currently performed by Thomson NA Group for TTE NA Group

"NA Service Agreement"	North America Service Agreement to be entered into between TTE and Thomson at Closing
"NA Transfer Agreement"	North America Transfer Agreement dated 12 July 2005 entered into among Thomson Inc., Thomson Multimedia Ltd., Thomson, TTE Technology, Inc., TTE Technology Canada Ltd., TTE and the Company
"Noteholder"	holder of the Global Note
"Reimbursement Agreement Amendment"	Amendment to the Reimbursement Agreement to be entered into between TTE and Thomson at Closing
"Reimbursement Agreement"	Restructuring Cost Reimbursement Agreement dated 30 July 2004 entered into between TTE and Thomson, details of which are set out in the Merger Circular
"Related Agreements"	With respect to the NA Transfer Agreement, the NA Service Agreement and the Thomson Laboratory Agreement, and with respect to the European Master Transfer Agreement, the Amended Angers Agreement, the Reimbursement Agreement Amendment, the Trademark Agreement Amendment, the Europe After Sales Agreement, the TTE Logistics Agreement and the TTE Styling Agreement
"Relevant Ratio"	any of the five ratios set out in Rule 14.07 of the Listing Rules which are relevant in categorizing the Transactions (for the purpose of categorizing the connected transactions or the continuing connected transactions, the profit ratio is not applicable)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time))
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subcontracting Service"	the service to be provided by Thomson acting as a subcontractor of TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services at the Angers Factory pursuant to the Amended Angers Agreement
"Thomson Europe Group"	Thomson and certain of its subsidiaries in Europe
"Thomson Group"	Thomson and its subsidiaries

"Thomson Laboratory Agreement"	Laboratory Services Agreement to be entered into between Thomson and TTE Technology, Inc. at Closing
"Thomson NA Group"	Thomson and certain of its subsidiaries in North America
"Thomson Preferred Supplier Agreement"	Thomson Preferred Supplier Agreement dated 30 July 2004 entered into between Thomson and TTE, details of which are set out in the Merger Circular
"Thomson Sales Europe"	a company incorporated under the laws of France, previously registered under the corporate name "Thomson Multimedia Sales Europe" and a wholly-owned subsidiary of Thomson
"Thomson Styling Services Agreement"	Thomson Styling Services Agreement dated 30 July 2004 entered into between Thomson and TTE under which Thomson is appointed by TTE as its exclusive provider of certain styling services, details of which are set out in the Merger Circular
"Thomson TV Business"	the TV businesses and assets injected by Thomson into TTE pursuant to the Combination Agreement
"Thomson"	Thomson S.A., a company incorporated under the laws of France, whose shares are listed on the Premier Marche of Euronext Paris S.A. and on the New York Stock Exchange in the form of American depositary shares
"Trademark Agreement Amendment"	Amendment to Trademark Agreement to be entered into between Thomson and TTE at Closing
"Trademark Agreement"	Thomson Trademark License Agreement dated 30 July 2004 entered into between Thomson and TTE, details of which are set out in the Merger Circular
"Transaction Documents"	the agreements stipulated under the Combination Agreement entered into by the relevant parties on or prior to the Merger Closing Date in relation to the combination of the respective TV businesses and assets of the Company and Thomson and the future operation of TTE
"Transactions"	the transactions contemplated under the Transfer Agreements and the Related Agreements (including the Reimbursement Agreement Amendment)
"Transfer Agreements"	the NA Transfer Agreement and the European Master Transfer Agreement
"Transferred Entities"	the Transferred Existing Entity and the Transferred New Entities
"Transferred Existing Entity"	Thomson Multimedia Sales France, the existing subsidiary of Thomson which is to be transferred to TTE pursuant to the European Master Transfer Agreement

"Transferred New Entities"	Thomson Sales Madrid SL, Thomson Sales GmbH and Thomson Sweden AB, the newly incorporated subsidiaries of Thomson which are to be transferred to TTE pursuant to the European Master Transfer Agreement
"TTE"	a company established pursuant to the Combination Agreement and currently owned by the Company and Thomson 67% and 33% respectively
"TTE Group"	TTE and its current or future subsidiaries or affiliates
"TTE Logistics Agreement"	Logistics Management Agreement to be entered into between TTE and Thomson Sales Europe at Closing
"TTE NA Group"	TTE and certain of its subsidiaries in North America
"TTE Styling Agreement"	TTE Styling Services Agreement to be entered into between Thomson and TTE at Closing
"TV"	Any apparatus (with or without accompanying sound reproduction apparatus) primarily for the reception and display of full motion visual images for visual observation (including the reception, transmission or display components thereof)
"US$"	United States dollars, the lawful currency of the United States of America

For your convenience, this circular contains translation between Hong Kong dollars and Euro/US dollars at the rate of HK$10 = €1 (based on the average exchange rate in the past year) and HK$7.8 = US$1. The translation shall not be taken as representations that the Hong Kong dollars amount could actually be converted into Euro or US dollars at that rate, or at all.

TCL 多媒體科技控股有限公司
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1070)

Executive Directors:
Li Dong Sheng *(Chairman)*
Lu Zhong Li
Hu Qiu Sheng
Yan Yong
Zhao Zhong Yao

Non-executive Director:
Albert Thomas da Rosa, Junior

Independent non-executive Directors:
Tang Guliang
Wang Bing
Hon Fong Ming

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

2 August 2005

To the Shareholders and for information only, to the Noteholder

Dear Sirs or Madams,

CONNECTED TRANSACTIONS
NORTH AMERICA TRANSFER AGREEMENT
EUROPEAN MASTER TRANSFER AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
RELATED AGREEMENTS

Reference is made to the announcement of the Company dated 12 July 2005 regarding the Transfer Agreements and the Related Agreements. The purpose of this circular is to provide you with further information on and to seek your approval of the terms of the Transactions and the Annual Caps of the Continuing Connected Transactions.

1. BACKGROUND

The Company entered into the Combination Agreement with Thomson to combine their respective TV businesses in the newly formed TTE. Shareholders' approvals were sought on 2 July 2004 for the Combination Agreement and all the Transaction Documents which required Shareholders' approval. Since the establishment of TTE, the Company has been monitoring the business development and operation of TTE, and is of the view that for TTE to operate more effectively, (a) sales and marketing activities for its TV business should be transferred from the Thomson Group and integrated into the TTE Group to enable TTE to have more direct control over such activities; and (b) the operations of the Angers Factory should be modified to better meet the needs and interests of the parties. As a result, the Transfer Agreements were entered into on 12 July 2005, the closing of which is subject to the fulfilment of a number of conditions including, among other things, the execution of the Related Agreements. The closing of the Transfer Agreements will give rise to termination or modifications of certain existing agreements entered into between the Thomson Group and the Group on the Merger Closing Date.

2. THOMSON AS A CONNECTED PERSON

Thomson currently does not hold any Shares but it is a connected person of the Company by virtue of its 33% interest in the existing issued share capital of TTE. It is expected that Thomson will complete its exercise of the Exchange Option in the near future. Pursuant to the Exchange Option, Thomson is entitled to exchange its 33% interest in TTE with the Company for an interest in the Company and the maximum number of Shares to be issued to Thomson upon exercise of the Exchange Option will represent 30% of the enlarged issued share capital of the Company minus one Share. The Company will issue a separate announcement in respect of the exercise of the Exchange Option as and when appropriate. Thomson will then become a substantial shareholder (as such term is defined in the Listing Rules) of the Company and remain a connected person of the Company by virtue of its interest in the Company upon closing of the Exchange Option. Accordingly the transactions under the Transfer Agreements and the Related Agreements will constitute connected transactions or continuing connected transactions of the Company under the Listing Rules. TCL Corporation currently holds about 54% of the Shares and is the controlling shareholder of the Company. Following completion of the Exchange Option, TCL Corporation's shareholding in the Company will decrease to about 38% but it will remain the single largest Shareholder of the Company.

3. CONNECTED TRANSACTIONS — TRANSFER AGREEMENTS

3.1. NA Transfer Agreement

Date: 12 July 2005

Parties:
(1) Thomson Inc.
(2) Thomson Multimedia Ltd.
(3) Thomson
(4) TTE Technology, Inc.
(5) TTE Technology Canada Ltd.
(6) TTE
(7) The Company

(a) *Transfer of NA Business Activities*

Pursuant to the NA Transfer Agreement, Thomson NA Group will transfer to TTE the business activities comprising of the product sales, marketing and management, the design and styling activities (such as industrial design and graphics design) related to TV, which are currently performed by Thomson NA Group for TTE NA Group under the NA Agency Agreement and the Thomson Styling Services Agreement.

TTE NA Group is required to make offers of employment to the employees of Thomson NA Group primarily related to the NA Business Activities (conditional on and effective from the Closing) on same or comparable wages such employees are receiving from Thomson NA Group as of the date of offer. The parties have identified about 80 of such employees to be transferred to TTE NA Group who are in the sales division related to the TV business. On Closing, such employees who choose to accept TTE NA Group's employment offer will become employees of TTE NA Group. Since TTE is only taking over the sales network from Thomson, should such employees refuse to accept such offer, the business of the TTE NA Group will not be affected. Thomson will be responsible for all amounts due and payable to such employees (including wages, commission, untaken annual or sick leave and benefits under pension plan, etc.) before Closing and TTE NA Group will be responsible for such transferred employees' wages and other benefits during their employment with TTE NA Group after Closing. TTE NA Group will also be responsible for (a) the severance payments which may be paid to such transferred employees after Closing, including those portions that relate to the period of their employment with Thomson NA Group before Closing; and (b) the restructuring costs relating to the severance of certain Thomson employees whom TTE NA Group does not wish to have transferred to it. The additional liabilities to be assumed by TTE NA Group in this respect are estimated to be about US$2.6 million (equivalent to about HK$20.28 million) which was calculated based on the average severance payment, with reference to market practices and company policy.

Thomson NA Group will also transfer to TTE NA Group the assets primarily related to the NA Business Activities (including books and records, and fixtures and equipment (such as furniture, computers and office machines)). The consideration to be paid by TTE NA Group for such assets amounts to about US$47,000 (equivalent to about HK$366,600), which is equal to the value of such net assets at 31 May 2005 as shown in the unaudited accounts of Thomson NA Group. The consideration has been arrived at after arm's length negotiation between the parties. TTE NA Group is also required to assume certain business contracts primarily related to the NA Business Activities which were originally executed between Thomson and other third parties (and may involve one-off transactions or continuing transactions). The annual obligations under such contracts will amount to about US$200,000 (equivalent to about HK$1.56 million), which is calculated based on the estimated existing Thomson contracts pertaining to TV products to be transferred to TTE.

Accordingly, the total consideration under the NA Transfer Agreement amounts to about US$2.85 million (equivalent to about HK$22.20 million) comprising the following:

(i) US$2.6 million (equivalent to about HK$20.28 million) in relation to severance costs;

(ii) US$47,000 (equivalent to about HK$366,600) for transfer of the assets primarily related to the NA Business Activities to be paid by TTE to Thomson; and

(iii) US$200,000 (equivalent to about HK$1.56 million) for which TTE will be responsible for the assumed certain business contracts primarily related to the NA Business Activities.

The NA Transfer Agreement will give rise to termination of the NA Agency Agreement and the Thomson Styling Services Agreement. (Please also refer to the paragraphs under the heading "TTE Styling Agreement" below for the existing and new arrangement of styling activities.)

(b) *Conditions*

The respective obligations of each party to the NA Transfer Agreement are subject to the satisfaction or waiver of, among other things, the following conditions on or prior to the Closing Date:

(i) the Transactions have been approved by the Independent Shareholders;

(ii) all government and regulatory approvals required to consummate the transactions contemplated under the NA Transfer Agreement have been obtained; and

(iii) execution of the Related Agreements.

The closing of the transactions contemplated under the NA Transfer Agreement will occur simultaneously with the closing of the European Master Transfer Agreement (please refer to the paragraph 3.2(b) below in the section headed "European Master Transfer Agreement").

Closing is expected to take place on or by 9 September 2005.

(c) *Termination*

The NA Transfer Agreement may be terminated by the Group or the Thomson Group at any time prior to the Closing Date if:

(i) Closing has not occurred by 31 October 2005; or

(ii) any order issued by a court or governmental authority restrains or prohibits the Closing and such order has become final and non-appealable.

3.2. European Master Transfer Agreement

Date: 12 July 2005

Parties: (1) The Company
(2) TTE
(3) Thomson

(a) *Transfer of Europe Business Activities*

The European Master Transfer Agreement, provides for the transfer from Thomson Europe Group to the TTE Group of the product sales, marketing and management, design, logistics and styling activities related to TV that are currently performed by Thomson Europe Group under the EMEA Agency Agreement and the Thomson Styling Services Agreement.

In connection with the transfer of the Europe Business Activities, Thomson Europe Group will transfer to the TTE Group those Thomson employees who are: (a) employees of the Transferred Entities; (b) persons subject to automatic transfers, in connection with the transactions contemplated in the European Master Transfer Agreement, pursuant to the applicable laws of any member state of the European Union or any other relevant jurisdictions; and (c) persons who have accepted individual offers of employment from the TTE Group.

The parties have identified about 325 such employees of Thomson Europe Group who are currently expected to be transferred to the TTE Group. The arrangement of such offers and the split of liabilities in relation thereto before and after Closing is similar to the arrangement under the NA Transfer Agreement. From and as of the Closing Date, TTE will assume all liabilities and obligations with respect to the employees so transferred including severance payments covering portions that relate to the period of their employment with Thomson Europe Group after Closing. The obligations with respect to severance payment are estimated to be about €5 million (equivalent to about HK$50 million). In respect of redundancies of employees who refuse TTE Group's offer of employment and whose employment is terminated as a result, TTE will assume (i) the minimum dismissal costs incurred by Thomson pursuant to applicable laws and collective bargaining agreements and (ii) the severance costs, up to €1 million (equivalent to about HK$10 million) in aggregate, incurred by Thomson (with TTE's prior approval if such incurrence is outside Thomson's standard practice) above such minimum dismissal costs. Such cost up to €1 million (equivalent to about HK$10 million) will nevertheless be deducted from the €5 million (equivalent to about HK$50 million) mentioned above.

Thomson Europe Group will also transfer to the TTE Group the assets primarily related to the Europe Business Activities. Such assets will comprise certain fixtures and equipment in addition to equity interest in the Transferred Entities. The Transferred Entities are primarily related to the Europe Business Activities and are located in Europe. The Transferred Entities include three Transferred New Entities in Spain, Germany and Sweden and one Transferred Existing Entity in France. To implement the intended transfer contemplated under the European Master Transfer Agreement, Thomson will transfer certain assets, liabilities and personnel from Thomson Europe Group to the Transferred New Entities. On Closing, TTE is required to pay Thomson €541,000 (equivalent to about HK$5.41 million) for consideration of the acquisition of the Transferred Entities, which represents the net asset value in the Transferred Entities as shown in the unaudited accounts of Thomson Europe Group as at 31 May 2005. Thomson is required to pay TTE €2.49 million (equivalent to about HK$24.9 million), which represents the value of assumed liabilities of about €11.87 million (equivalent to about HK$118.7 million) in excess of the assets of about €9.38 million (equivalent to about HK$93.8 million). Accordingly on Closing, Thomson will pay TTE a net amount of about €1.95 million (equivalent to about HK$19.5 million). If the value of the shares, assets and liabilities transferred on the Closing Date, as shown in the closing accounts (to be made available within 45 days from the Closing Date) is different from the value as set out above, adjustment to the consideration paid is required to be made on Euro for Euro basis. Interest at a rate per annum equal to LIBOR will be payable on the adjustment sum from the date on which the adjustment sum is determined to the date of payment of the adjustment sum.

Accordingly, the total consideration under the European Master Transfer Agreement amounts to about €7.49 million (equivalent to about HK$74.9 million) comprising the following:

(i) about €5 million (equivalent to about HK$50 million) for which TTE will be responsible in respect of the obligations with respect to transferred Thomson employees relating to severance payment; and

(ii) €2.49 million (equivalent to about HK$24.9 million) in respect of the amount required to be paid by Thomson to TTE for the difference of assets and assumed liabilities (the actual payment will be €1.95 million (equivalent to about HK$19.5 million) as mentioned above after deduction of €541,000 (equivalent to about HK$5.41 million) for consideration of the acquisition of the Transferred Entities).

The European Master Transfer Agreement will give rise to termination of the EMEA Agency Agreement and the Thomson Styling Services Agreement.

(b) *Conditions*

It is a condition precedent for the European Master Transfer Agreement becoming effective that the Related Agreements are in the forms agreed between the Group and the Thomson Group.

The respective obligations of each party to the European Master Transfer Agreement are also subject to the satisfaction or waiver of, among other things, the following conditions on or prior to the Closing Date:

(i) the Transactions have been approved by the Independent Shareholders;

(ii) all government and regulatory authorities approvals required to consummate the transactions contemplated under the European Master Transfer Agreement have been obtained;

(iii) execution of the Related Agreements; and

(iv) each of certain Thomson French employees required to be retained with Thomson has accepted an offer of employment from the Thomson Group and none of them has accepted an offer of employment from the TTE Group.

Unless the parties agree otherwise, the closing of the transactions contemplated under the European Master Transfer Agreement will occur simultaneously with and will be conditional on the Closing of the NA Transfer Agreement.

(c) *Termination*

The terms for terminating the European Master Transfer Agreement by the Group or the Thomson Group are the same as those under the NA Transfer Agreement.

As mentioned above, the assets to be acquired under the Transfer Agreements will be transferred to the TTE Group from various entities within the Thomson Group. Accordingly, audited figures are not available for the acquisition as a whole.

4. RELATED AGREEMENTS

The obligations of the parties to the Transfer Agreements are subject to the fulfillment of a number of conditions including, among other things, the execution of the following Related Agreements:

(1) Amended Angers Agreement;

(2) Trademark Agreement Amendment;

(3) Reimbursement Agreement Amendment;

(4) NA Service Agreement;

(5) Thomson Laboratory Agreement;

(6) Europe After Sales Agreement;

(7) TTE Logistics Agreement and

(8) TTE Styling Agreement.

The Related Agreements as mentioned above will be executed on or before the Closing Date in fulfilment of one of the conditions for the Closing and will only become effective from the Closing Date. The Company will issue a separate announcement in respect of the Closing and the execution of the Related Agreements.

4.1. Reimbursement Agreement Amendment

Under the Reimbursement Agreement, Thomson agreed to reimburse the TTE Group up to €33 million (equivalent to about HK$330 million) of restructuring costs incurred by TTE within the first two years of the Merger Closing Date in relation to the TV business contributed by it to TTE. In consideration for the overall balance of the Transactions, Thomson has agreed in the Reimbursement Agreement Amendment to increase the amount eligible for reimbursement by €5 million (equivalent to about HK$50 million) to a total of €38 million (equivalent to about HK$380 million). Such increase was a result of arm’s length negotiation between the parties in relation to the estimated restructuring costs to be incurred by TTE under the Transfer Agreements and the Related Agreements. In particular, the severance payment and other expenses related to the transfer of employees to TTE under the Transfer Agreements required an increase in the amount eligible for reimbursement. All other materials terms of the Reimbursement Agreement will remain unchanged.

5. CONTINUING CONNECTED TRANSACTIONS

Save for the Reimbursement Agreement Amendment, the Related Agreements will constitute Continuing Connected Transactions of the Company.

5.1. Amended Angers Agreement

Parties: (1) Thomson
(2) TTE

(a) *Background*

Angers Factory does not form part of the Thomson TV Business contributed by Thomson to TTE under the Combination Agreement. However, under the Existing Angers Agreement, the parties agreed that Thomson will sell, and TTE will purchase, TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products. (Please refer to the Merger Circular for further details.)

The Amended Angers Agreement will change substantially the arrangements under the Existing Angers Agreement in that the Angers Factory will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and the supply of rework services. The new arrangement is intended to give both TTE and Thomson greater flexibility to meet changing market demands.

(b) *The New Terms*

The material changes to the Existing Angers Agreement are summarised below:

(i) Instead of selling TV products by Thomson to TTE on the basis as mentioned above, Thomson will now provide the Subcontracting Service at the Angers Factory to TTE at an hourly rate consistent with the production cost structure currently in use at the Angers factory. A minimum order of Subcontracting Service in terms of hours per semester will be guaranteed by TTE. The minimum order is determined with reference to: (a) the numbers of hours available at Angers Factory for the production of TV; and (b) the sale forecast estimation of TTE for the related production in the coming year after taking into account of its expected market conditions and the potential growth of the Group. If TTE do not order the minimum quantity, Thomson will invoice TTE for the difference not ordered on the same terms and conditions as the quantity ordered.

(ii) Under the Existing Angers Agreement, TTE had no right to influence or direct operations at the Angers Factory. Pursuant to the Amended Angers Agreement, however, Thomson will provide TTE flexibility (such as work time modulation, two shifts days organization) to match TTE's order for the Subcontracting Service.

(iii) Thomson will transfer to TTE the title to and interests, risks and liabilities in all products, raw materials, works in progress at the Angers Factory and all liabilities associated therewith. All Materials ordered prior to 30 July 2004 will be transferred at a price to be negotiated between the parties on arms' length basis at market value. Materials ordered after 30 July 2004 will be transferred based on either the net book value or the historical value of such Materials. It is expected that the total value of the products, raw materials and works in progress at the Angers Factory to be transferred to TTE will not be more than €17.5 million (equivalent to about HK$175 million).

(iv) Thomson will also transfer to TTE certain business activities including material procurement, material financing controlling and the customer services interface in relation to the Angers Factory which will involve the transfer of 14 Thomson employees to TTE.

(v) TTE will pay to Thomson a total amount of €20 million (equivalent to HK$200 million) over 5 years ranging from €6 million (equivalent to about HK$60 million) in 2005 to €2 million (equivalent to about HK$20 million) in 2009 to cover the reorganisation costs incurred in connection with having an operation model of Angers Factory acceptable to the parties. Such payment is to compensate the additional costs to be incurred by Thomson due to the changes in the business model at the Angers Factory. Under the Existing Angers Agreement, Thomson sells, and TTE purchases, TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products. Under the Amended Angers Agreement, Thomson will provide Subcontracting Service to TTE at an hourly rate consistent with the production cost structure currently in use at the Angers factory.

(vi) On a quarterly basis over a five-year period, Thomson will pay to TTE an amount corresponding to the difference between the production cost structure in use at the Angers Factory and the production cost structure in use at the European factory operations previously transferred to TTE pursuant to the Combination Agreement, which amount is not expected to exceed an average of €3.7 million (equivalent to about HK$37 million) per quarter.

(c) *Existing Terms which Remain Unchanged*

The Existing Angers Agreement has a term of five years from 30 July 2004 and the Amended Angers Agreement will be for the unexpired term of the Existing Angers Agreement (i.e., the remaining term of about four years). Save for the modification as mentioned in paragraph 5.1(b) above, the major terms of the Existing Angers Agreement which are summarized below will remain unchanged and will be restated in the Amended Angers Agreement:

(i) TTE shall purchase (a) certain fixed assets of the Angers Factory (mainly production equipment and machines) relating to TV production, as listed in the Existing Angers Agreement (the "Subject Assets"), for a nominal consideration of €1 (about HK$10), and (b) the raw materials for, and works-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 in the Merger Circular).

(ii) Should the aggregate book value of the Subject Assets be less than €8 million (equivalent to about HK$80 million), Thomson shall transfer other assets of the Angers Factory or cash to TTE to make up the shortfall. In other words, TTE will in any event receive assets and/or cash of total value of €8 million (about HK$80 million) in return for the nominal consideration of €1 (equivalent to about HK$10). The aggregate book value of the Subject Assets was about €9.7 million (equivalent to about HK$97 million) as at 30 June 2005.

(iii) Thomson may acquire new assets (the "New Assets") up to €8 million (about HK$80 million) in consultation with TTE to meet the TV production needs of 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 described below, TTE shall purchase from Thomson the New Assets for a nominal consideration of €1 (about HK$10) 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$80 million), Thomson shall transfer cash to TTE to make up the shortfall.

(d) *Reason for Term in Excess of Three Years*

As noted above, the Angers Factory was a part of the TV business of Thomson but was not 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 the Angers Factory 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. The five-year term of the Existing Angers Agreement 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.

Under the Amended Angers Agreement, TTE would still use the Angers Factory as a subcontractor for part of its requirements over the remaining term of the Existing Angers Agreement which will on the one hand allow Thomson time to continue to reorganise its operations at that factory and on the other hand give both Thomson and TTE greater flexibility to meet changing market demands as a result of the change of operation model.

(e) *Listing Rules Implication*

The transactions contemplated under the Amended Angers Agreement will constitute a material variation to the Existing Angers Agreement in respect of which previous Independent Shareholders' approval was obtained and accordingly they will be subject to Independent Shareholders' approval. In addition, given the Subcontracting Service will constitute a continuing connected transaction of the Company and the fee payable thereunder on an annual basis will exceed 2.5% of the Relevant Ratio, approval of the Independent Shareholders is required under the Listing Rules for the Amended Angers Agreement which will supersede the Existing Angers Agreement.

5.2. Trademark Agreement Amendment

Parties: (1) Thomson as licensor
(2) TTE as licensee

(a) *Background*

Under the Trademark Agreement, Thomson granted to TTE and certain of its subsidiaries for a 20-year term a non-sub-licensable and non-transferable license to use certain of Thomson's registered trademarks including Thomson A Brands and related sub-brands "Thomson", "RCA", "Scenium" and "LiFE" and Thomson B Brand "SABA" for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions.

The royalties payable under the Trademark Agreement are 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 base rates are 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 6% or over, respectively. The Trademark Agreement provides that no royalties of base rate is payable by TTE to Thomson prior to the second anniversary of the Merger Closing Date but on termination of the NA Agency Agreement and the EMEA Agency Agreement the base rates will be increased by 0.5% for Thomson A Brands and 0.25% for Thomson B Brand. The reason for the increase is to compensate Thomson for loss of revenue resulting from termination of the agency agreements.

(b) *The New Terms*

The Trademark Agreement Amendment provides that Thomson will charge TTE a margin rate (in addition to the base rate) of 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively, for the period from 21 July 2005 to 21 April 2008 and thereafter the margin rate so charged will be the same as that originally stipulated (that is 0.5% for Thomson A Brands and 0.25% for Thomson B Brand). Notwithstanding the waiver of the base rate until the second anniversary of the

Merger Closing Date, the margin rate is payable during all periods. The Transfer Agreements will terminate the NA Agency Agreement and the EMEA Agency Agreement and Thomson will no longer receive agency fees from TTE. The margin rate is used to compensate Thomson for the early termination of the agency agreements. In its current form, the Trademark Agreement already provides that the base rate will be increased upon termination of the agency agreements. The new margin rate to be charged pursuant to the Trademark Agreement Amendment is determined with reference to the current royalty rate payable under the Trademark Agreement and is a more favorable rate for TTE than the increased base rate as contemplated under the Trademark Agreement. The Directors (including the independent non-executive Directors) are of the view that the terms of the Trademark Agreement Amendment are fair and reasonable.

(c) *Existing Terms which Remain Unchanged*

The Trademark Agreement has a term of twenty years from 30 July 2004 and the Trademark Agreement Amendment will be for the unexpired term of the Trademark Agreement (i.e., the remaining term of about nineteen years). Save for the modification as mentioned in paragraph 5.2(b) above, major terms of the Trademark Agreement will remain unchanged which are summarised as follows:

(i) 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 A Brands of Thomson in the relevant territories for the previous fiscal year.

(ii) Thomson shall reinvest the 0.5% trademark license fees payable by the TTE Group to Thomson in respect of 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 A Brands of Thomson.

(iii) 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:

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

(bb) recording the agreement; and

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

(d) *Listing Rules Implication*

The Trademark Agreement Amendment will constitute a material variation to the Trademark Agreement in respect of which previous Independent Shareholders' approval was obtained and accordingly the Trademark Agreement, as amended by the Trademark Agreement Amendment, will be subject to Independent Shareholders' approval.

(e) *Reason for Term in Excess of Three Years*

As noted in the Merger Circular, one of the main objectives in entering into the Combination Agreement is to leverage on the "Thomson", "RCA" and other brands 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 such a long term of 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.

5.3. NA Service Agreement

Parties: (1) TTE
(2) Thomson Inc.

(a) *Background*

The product after-sales and logistics activities under the NA Agency Agreement will not be transferred to TTE but will continue to be provided by Thomson NA Group for TTE.

(b) *Major Terms*

TTE will appoint Thomson Inc. under NA Service Agreement as its service provider to provide after-sales, logistics and other services in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designated to be sold in the North America. The after-sales services will be provided on an exclusive basis whereas the logistics services and other services will be provided on a non-exclusive basis. TTE will pay to Thomson Inc. all costs and expenses incurred by Thomson for the provision of the services under the agreement at cost.

(c) *Duration of the Agreement*

The agreement will take effect on the Closing Date and continue in force for a term of three years unless terminated earlier by the parties thereto in accordance with the provisions therein. However, TTE will have the sole option to renew the agreement on the same terms for an additional 12 to 18 months by giving notice of not less than three months to Thomson prior to the expiry of the term.

5.4. Thomson Laboratory Agreement

Parties: (1) Thomson Inc.
(2) TTE Technology, Inc.

(a) *Major Terms*

TTE Technology Inc. will appoint Thomson Inc., as an independent contractor on a non-exclusive basis, to provide the laboratory services for TV and related products being developed by or for the TTE research and development laboratory located in North America. The service fee will be charged by Thomson Inc. at cost. However, TTE will be required to commit to a minimum service in the amount of US$500,000 (equivalent to about HK$3.9 million) each year to cover the fixed costs for the service to be provided thereunder.

(b) *Duration of the Agreement*

The agreement will be effective on the Closing Date and continue in force for a term of two years unless terminated earlier by the parties thereto in accordance with the provisions therein.

5.5. Europe After Sales Agreement

Parties: (1) TTE
(2) Thomson Sales Europe

(a) *Background*

The product after-sales activities under the EMEA Agency Agreement will not be transferred to TTE but will be continued to be provided by Thomson Sales Europe.

(b) *Major Terms*

TTE will appoint Thomson Sales Europe, a wholly-owned subsidiary of Thomson, as its exclusive service provider to provide after-sales services (including consumer inquiries, warranty management, repair and rework, service contracts and E-business) with respect to TV and related products of the TTE Group sold or designated to be sold in certain European countries (namely, Austria, Belgium, France, Germany, Ireland, Italy, Portugal, Spain, Switzerland and the United Kingdom).

The after-sales services of warranty management, repair and rework and service contracts performed by Thomson Sales Europe for products bearing Thomson A Brands or Thomson B Brand in such countries will be free of charge. Whereas for products not bearing Thomson A Brands or Thomson B Brand will be charged by Thomson at a rate to be mutually agreed by parties on a case by case basis which is expected to be not less favourable than those offered to an independent third party. The fee for providing the services of consumer inquiries and E-business will be entirely borne by TTE at cost.

(c) *Duration of the Agreement*

The agreement will be effective on the Closing Date and continue in force for a term of three years unless terminated earlier by the parties thereto in accordance with the provisions therein. However, TTE will have the sole option to renew the agreement on the same terms for an additional 12 to 18 months by giving notice of not less than 6 months to Thomson prior to the expiry of the term.

5.6. TTE Logistics Agreement

Parties: (1) TTE
(2) Thomson Sales Europe

(a) *Major Terms*

TTE will provide to Thomson Sales Europe logistics management services (including management and follow-up of the performance of logistics contracts, management of logistics costs savings programs and re-engineering projects initiated by Thomson) with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designated to be sold in Europe and some other countries. Thomson Sales Europe will pay to TTE a service fee of €240,000 (equivalent to HK$2.4 million) per year charged at cost.

(b) *Reason for Term in Excess of Three Years*

The agreement will be effective on the Closing Date and continue in force until 31 December 2008 unless terminated earlier by the parties thereto in accordance with the provisions therein. As the TTE Logistics Agreement will expire on 31 December 2008, the term of the agreement is expected to run for a period in excess of three years by approximately three months. Since the exiting agreements of Thomson Sales Europe with the logistics suppliers will last until the end of the year and TTE will manage these suppliers for Thomson under the TTE Logistics Agreement, the Directors consider that it will be in the interests of the Group to have a term expired on 31 December, the date of financial year end to save the administrative cost.

5.7. TTE Styling Agreement

Parties: (1) Thomson
(2) TTE

(a) *Background*

Currently Thomson provides styling services to TTE under existing Thomson Styling Services Agreement (detail of which are set out in the Merger Circular). After Closing, the design and styling activities will be transferred to the TTE Group and under the TTE Styling Agreement.

(b) *Major Terms*

Thomson will engage the TTE Group as an independent contractor, on a non-exclusive basis, to provide to the Thomson Group the styling services (such as industrial design, design development, strategic design and graphic design) for and with respect to Thomson's products. The service fee will be charged by TTE at cost. The TTE Styling Agreement will give rise to termination of the Thomson Styling Services Agreement on the Closing Date.

(c) *Duration of the Agreement*

The agreement will be effective on the Closing Date and continue in force for a term of one year.

6. PROPOSED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

The Board expects that the amounts to be involved under the following Continuing Connected Transactions will not exceed the following cap amounts for the three years ending 31 December 2007:

	The annual cap amount for the financial year ending 31 December		
	2005	**2006**	**2007**
	(HK$ million)		
Continuing Connected Transactions			
(1) Amended Angers Agreement	335*	350*	320*
(2) Trademark Agreement Amendment	40*	105*	125*
(3) NA Service Agreement	25*	50*	52*
(4) Thomson Laboratory Agreement	3*	6	4.5
(5) Europe After Sales Agreement	0.5*	1	1
(6) TTE Logistics Agreement	1.3	2.5	2.5
(7) TTE Styling Agreement	8.5*	8.5*	N/A

* *Note:* These cap amounts have been revised since the Company's announcement dated 12 July 2005.

(a) *Caps for Amended Angers Agreement*

The caps for the Subcontracting Service under the Amended Angers Agreement were determined based on (a) the minimum amount of hours committed to by TTE, which is about 332,000 hours per year in average at an hourly rate equal to the production cost structure currently in use at the Angers Factory and (b) the reorganisation costs to be incurred by TTE. The hourly rate to be charged will not be less favourable to the TTE Group than to an independent third party. The commitment for the three years ending 31 December 2007 is estimated to be about 370,000 hours, 400,000 hours and 375,000 hours respectively. The historical number of factory production hours for the production of TV products at the Angers Factory in 2003 and 2004 were approximately 750,000 and 690,000 hours per annum respectively.

(b) *Caps for Trademark Agreement as Amended by Trademark Agreement Amendment*

The caps for the Trademark Agreement as amended by the Trademark Agreement Amendment were determined based on the estimated turnovers of the TTE Group for each of the three financial years ending 31 December 2007 and the expected increase of sales of about 5% for the period under review as a result of (i) the change of the operation model of the sales and marketing activities under the Transfer Agreements and (ii) expected market conditions, which is that a steady demand for TV products is anticipated by the Board based on its experience in industry and knowledge of the relevant markets. The variation in the fees payable in the 2005 and 2006 financial years is also due to the fact that (a) the payment of base fee as disclosed above has been waived until July 2006; and (b) the payment of margin rate will only commence from July 2005.

(c) *Caps for the Remaining Continuing Connected Transactions*

For the remaining Continuing Connected Transactions, the fees will be charged at cost at a rate no less favourable to the TTE Group than to an independent third party and the caps therefor are determined based on the costs and the expected amount of the services to be involved thereunder after taking into account the amount of service required by the TTE Group as a result of the change of operation model of the sales and marketing activities under the Transfer Agreements. When determining the expected level or volume of services required, the Company has taken into account relevant factors such as the expected turnovers based on its experience in industry and knowledge of the relevant markets, the needs of the TTE Group for the relevant services under the new operation model in respect of the sales and marketing activities and the availability of other service providers.

As each of the NA Service Agreement, Europe After Sales Agreement, Thomson Laboratory Agreement and TTE Logistics Agreement will be entered into in the second half of 2005, the transaction volume in relation thereto for the year 2005 is expected to be about half of that for year 2006. The cap amount for the year 2007 has assumed a steady increase in turnover of the business of TTE Group.

The Thomson Laboratory Agreement has a term of two years. The annual cap amount for 2007 is expected to be less than 2006 because the agreement will expire in September 2007.

Besides the Amended Angers Agreement, the Continuing Connected Transactions will be charged at cost, and no payment schedule will be involved. The fees charged, however, will be payable upon issuance of an invoice.

(d) *Listing Rules Implication*

The Company will comply with the rules in relation to annual review of the Continuing Connected Transactions as set out in Rules 14A.37 to 14A.41 of the Listing Rules.

Upon any variation or renewal of the above agreements, the Company will comply in full with the applicable requirements set forth in Chapter 14A of the Listing Rules.

If TTE exercises its sole option to renew any of the NA Service Agreement and the Europe After Sales Agreement upon expiry of the initial term of three years, the Company will comply with the requirements of reporting, announcement and approval by the Independent Shareholders, if necessary, in accordance with Chapter 14A of the Listing Rules.

For those transactions having a term exceeding three years, that is the Amended Angers Agreement, the Trademark Agreement as amended by the Trademark Agreement Amendment and TTE Logistics Agreement, the Company will re-comply with the requirements of reporting, announcement and approval by the Independent Shareholders, if necessary, in accordance with Chapter 14A of the Listing Rules after 31 December 2007.

7. THE TRANSACTIONS — REASONS AND BENEFITS

The terms of the Transactions have been negotiated and were or will be entered into on an arm's length basis in the ordinary and usual course of business of the Group and on normal and commercial terms which, in the opinion of the Directors (including independent non-executive Directors), are fair and reasonable and in the interests of the Shareholders as a whole.

Currently, the sales and marketing activities in North America and Europe in respect of the Group's products are undertaken by the Thomson Group for the TTE Group under the NA Agency Agreement and the EMEA Agency Agreement. After Closing, such activities will be transferred to the TTE Group and TTE will have direct control over such activities.

The Board believes that in a fast changing business environment with specialization of sales force becoming a trend in the TV industry, it is important to emphasize customer relationships and reduce dependence on third party service providers. Thus, establishing a fully dedicated sales force is important for the development of TTE's business. The Board further believes that it will be more cost effective for TTE to have close and direct control of its marketing and sales activities. Moreover, having direct control over the market and sales operation will enable TTE to more effectively implement its strategic and operational objectives, as well as to better oversee pricing and program administration and manage customer mix and internal cost structure.

The total consideration for the Transfer Agreements is about HK$107 million. Although TTE is required to pay wages and other employment benefits after Closing to the employees to be transferred from Thomson, the agency fee for sales and marketing activities of the Group's products in North America and Europe will no longer be payable after Closing. TTE believes that it will realize cost savings in the long run as a result of the transactions contemplated under the Transfer Agreements. More important, the transactions will give TTE a direct control over its sales and marketing activities as mentioned above.

8. INDEPENDENT SHAREHOLDERS' APPROVAL

The transactions under the Transfer Agreements and the Related Agreements will constitute connected transactions or continuing connected transactions of the Company under the Listing Rules. The Transactions as a whole in aggregate will exceed 2.5% of the Relevant Ratio and accordingly will be subject to the requirements of reporting, announcement and the Independent Shareholders' approval in accordance with Chapter 14A of the Listing Rules.

8.1. EGM

The Company will convene the EGM at 11:00 a.m. on 18 August 2005 at Chatham Room, 7/F, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong at which resolutions will be proposed for the purpose of considering and if thought fit, approving the terms of the Transactions and the Annual Caps of the Continuing Connected Transactions. The notice of the EGM is set out on pages 67 and 68 of this circular. In view of Thomson's interests in the Transactions, Thomson and its associates are required under the Listing Rules to abstain from voting at the EGM in respect of the aforesaid resolutions. The voting on such resolutions will be conducted by way of poll in accordance with the requirements of the Listing Rules.

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 no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

8.2. Closure of Register of Members

The register of members of the Company will be closed on 18 August 2005, for the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM. No transfer of the Shares may be registered on that day. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by no later than 4:00 p.m. on 17 August 2005.

9. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 28 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the terms of the Transactions and the Annual Caps of the Continuing Connected Transactions; and (ii) the letter from Commerzbank set out on pages 29 to 59 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the fairness and reasonableness of the terms and the Annual Caps of the Continuing Connected Transactions.

The Independent Board Committee, having taken into account the advice of the IFA, considers that the terms of the Transactions and the Annual Caps of the Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM in respect of the Transactions and the Annual Caps of the Continuing Connected Transactions.

10. INFORMATION ON THE GROUP

TCL Multimedia Technology Holdings Limited is a leading multimedia consumer electronics manufacturer with a global sales network. Television is the core product of the Group. This business is operated under its 67% owned subsidiary, TCL-Thomson Electronics Corporation (TTE), the company established between the Group and Thomson S.A. in August 2004. The Group's TVs sold in Asia, Europe and North America are marketed under three key brands — "TCL", "THOMSON" and "RCA" respectively. Currently, the Group is the largest TV player in the world in terms of production and sales volume. Headquartered in China, the Company operates highly efficient manufacturing plants and R&D centres across all major continents. In addition to TVs, the Group also manufactures PCs and AV products. For further information on the Company, please visit www.tclhk.com. (The information that appears in this website does not form part of this announcement.)

11. INFORMATION ON THE THOMSON GROUP

Thomson (Euronext Paris: 18453; NYSE: TMS) provides technology, systems and services to help its Media & Entertainment clients — content creators, content distributors and users of its technology — realize their business goals and optimize their performance in a rapidly changing technology environment. The Group intends to become the preferred partner to the Media & Entertainment Industries through its Technicolor, Grass Valley, RCA and Thomson brands. For more information: www.thomson.net. (The information that appears in this website does not form part of this announcement.)

Thomson Inc. is the American subsidiary of Thomson, S.A. that serves the media and entertainment industries with a variety of services, products, and technologies. Through its Technicolor line of services, Thomson offers post-production, film printing, DVD replication, and distribution to Hollywood studios, game developers, and technology companies. Thomson's Grass Valley line of professional broadcast equipment is utilized by broadcasters and network operators to gather, manage, and distribute high-value entertainment and sports content. The company's Access Platforms and Gateways division provides key technologies and set-top receivers for network operators who distribute information and entertainment. Thomson's Connectivity division links together access devices in the consumer's home, with audio/video, home networking, and residential telephone solutions.

TTE Technology, Inc. is a subsidiary of TTE, a joint venture between TCL and Thomson and a leading global television enterprise. Established in July 2004, TTE specializes in the R&D, manufacturing, and sales and marketing of television products. TTE offers a complete range of television products — from budget to premium, from basic features to high-end innovation, from analog to digital technology. TTE employs a highly-skilled workforce of over 29,000 personnel in five profit centers, five R&D centers and ten manufacturing plants around the world.

Thomson Sales Europe purchases and sells consumer electronics goods and related services.

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

TCL 多媒體科技控股有限公司
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1070)

2 August 2005

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS
NORTH AMERICA TRANSFER AGREEMENT
EUROPEAN MASTER TRANSFER AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
RELATED AGREEMENTS

We refer to the circular of the Company dated 2 August 2005 (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.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Transactions and the Annual Caps of the Continuing Connected Transactions, details of which are set out in the letter from the Board in 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 the IFA, we consider that the Transactions and the Annual Caps of the Continuing Connected Transactions to be fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM in respect of the Transactions and the Annual Caps of the Continuing Connected Transactions.

Yours faithfully,
Tang Guliang Wang Bing Hon Fong Ming
Independent Board Committee

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from the IFA regarding the Transactions and Annual Caps of the Continuing Connected Transactions prepared for the purpose of incorporation in this circular.

德 國 商 業 銀 行

COMMERZBANK

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

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2 August 2005

To the Independent Board Committee
and the Independent Shareholders

Dear Sirs,

CONNECTED TRANSACTIONS
NORTH AMERICA TRANSFER AGREEMENT
EUROPEAN MASTER TRANSFER AGREEMENT

CONTINUING CONNECTED TRANSACTIONS
RELATED AGREEMENTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Transfer Agreements, the Related Agreements and their respective annual cap, details of which are set out in this circular (the "**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 12 July 2005, the Board announced that the Company had entered into the Transfer Agreements and the Related Agreements in respect of the transfer of the sales and marketing activities in North America and Europe, which are currently undertaken by the Thomson Group, to TTE. As a result of the Transfer Agreements, certain continuing connected transactions will be entered into between the Group and the Thomson Group upon Closing.

Thomson currently does not hold any Shares but it is a connected person of the Company by virtue of its 33% interest in the existing issued share capital of TTE. Accordingly, the transactions under the Transfer Agreements and the Related Agreements will constitute connected transactions or continuing connected transactions of the Company under the Listing Rules. Since the aggregate amount to be involved under the Transactions will exceed 2.5% of the Relevant Ratio, the Transactions are subject to the requirements of reporting, announcement and approval by the Independent Shareholders in accordance with Chapter 14A of the Listing Rules. Our role as the independent financial adviser to the Independent Board Committee is to give our opinion as to whether the terms of the Transfer Agreements, the Related Agreements and their respective annual cap are (a) carried out in the ordinary and usual course of the Group's business, and (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. We have also 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 Transfer Agreements, the Related Agreements and their respective annual cap 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Transfer Agreements, the Related Agreements 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. Background

Pursuant to a report issued by a world leading telecom and media research firm in September 2004, we note that the Company is the world largest manufacturer of TV sets. With the acquisition of the Thomson Group's businesses in Europe and the North America, TTE is a major global player in the business of TV R&D, manufacturing, sales and distribution. Pursuant to the Combination Agreement, TTE is a major global player in the business of TV R&D, manufacturing, sales and distribution. Pursuant to the Combination Agreement, TTE appointed the Thomson Group as its agent to provide after sales, management, marketing, sales and logistic services with respect to all TV end-products in North America, Europe, the Middle East and Africa.

As noted in the Company's announcement dated 21 April 2005 in respect of the signing of the MOUs, the Company has been monitoring the business development and operation of TTE since its establishment in August 2004 (the "**Combination**"), and is of the view that for TTE to operate more effectively, (a) sales and marketing activities should be transferred from the Thomson Group and integrated into the TTE Group to enable TTE to have more direct control over such activities; and (b) the operations of the Angers Factory should be modified to better meet the needs and interests of the parties.

2. Transfer Agreements

As discussed in the letter from the Board in the Circular (the "**Letter from the Board**"), the principal objective of the Transfer Agreements is to transfer the sales and marketing activities in North America and Europe that are currently undertaken by the Thomson Group to the TTE Group. As Thomson is a connected person of the Company, accordingly, the Transfer Agreements will constitute connected transactions of the Company under the Listing Rules.

2.1 *NA Transfer Agreement*

Pursuant to the NA Transfer Agreement, Thomson NA Group will transfer to TTE the business activities comprising of the product sales, marketing and management, the design and styling activities (such as industrial design and graphics design) related to TV, which are currently performed by Thomson NA Group for TTE NA Group under the NA Agency Agreement and the Thomson Styling Services Agreement.

We have reviewed the NA Transfer Agreement and note that no legal entities will be transferred. In addition to the transfer of personnel responsible for sales and marketing, (i) assets including books and records, fixtures and equipment (such as furniture, computers and office machines) will also be transferred based on the net asset value reflected on the latest unaudited account of the Thomson Group as at 31 May 2005; and (ii) TTE will assume the existing contractual liabilities related to the NA Business Activities, which were originally executed between Thomson and third parties (and may involve one-off transactions or continuing transactions). As set out in the Letter from the Board, the total consideration under the NA Transfer Agreement amounts to approximately US$2.85 million (equivalent to approximately HK$22.20 million), which is comprised of the following:

— TTE shall assume US$2.6 million (equivalent to approximately HK$20.28 million) in relation to severance costs;

— TTE shall pay to Thomson US$47,000 (equivalent to approximately HK$366,600) for transfer of the assets primarily related to the NA Business Activities; and

— TTE shall assume US$200,000 annually (equivalent to approximately HK$1.56 million) in relation to certain business contracts primarily related to the NA Business Activities.

We have discussed with the Directors and understand that out of approximately 338 employees of the Thomson NA Group, TTE has identified approximately 80 employees related to the TV business to be transferred to the TTE Group upon Closing. We have discussed with the management of TTE and note that the 80 employees identified are in the sales division related to the TV business. Since TTE is only taking over the sales network from Thomson, it does not need the rest of the employees of the Thomson NA Group. TTE shall be responsible for the severance payments for those employees to be transferred to TTE and certain additional costs should the employees refuse to transfer to TTE. We have discussed with the management of TTE and note that US$2.6 million (equivalent to approximately HK$20.28 million) severance payment was calculated based on the average severance payment, with reference to market practices, local laws and company policy, which TTE will have to pay if employment with the relevant employees is to be terminated after the Closing Date. We note that the amount of US$2.6 million (equivalent to approximately HK$20.28 million) will vary, depending on when and the exact number of employees to be terminated by TTE subsequent to the Closing. Since it is unclear when TTE will terminate any of the transferred employees with TTE Group subsequent to the Closing, we are of the view that it is inherently difficult to provide an exact monetary value for the severance payment. However, we have reviewed the calculation compiled by the management of TTE, and understand that the severance payment was calculated based on (i) an estimate of a certain number of employees that could be terminated by TTE after Closing; and (ii) the severance payment to be paid by TTE under the applicable laws and the company policy. We have discussed with the management the estimation and the methods used to calculate the potential monetary amount for the severance costs. We note that since transferred employees to TTE will be offered the same or matching employment package to those of Thomson, therefore, we are of the view that the underlying assumptions and the estimation used by the TTE management is prudent. We note that although the payment to be made by TTE may increase or decrease as a result of the final number of employees to be terminated subsequent to the Closing, however, given our (i) acknowledgement as to TTE management's mechanism used to determine the potential monetary liability that TTE will have to pay or incur as a result of the transfer; and (ii) the estimated number of employees to be terminated by the TTE Group subsequent to the Closing, which in our view, is a prudent estimation, we are of the view that the calculation in arriving at US$2.6 million (equivalent to approximately HK$20.28 million) is fair and reasonable.

We also note that in addition to the transfer of employees, approximately US$47,000 (equivalent to approximately HK$366,600) assets primarily related to the NA Business Activities (i.e. books and records, contracts, fixtures and equipment and licenses) will be transferred. We have reviewed the NA Transfer Agreement and note that the consideration for such assets was based on the net asset value shown in the unaudited account of the Thomson Group as at 31 May 2005. We have discussed with the management of TTE and understand that unaudited figures were used (i) since assets will be transferred from different entities, hence there will not be any audited figure for such assets; (ii) due to the minimal nature of the figures and that the figures are actually derived from the audited accounts of the relevant entities based on the net asset value of the transferred assets; and (iii) because 31 May 2005 was the latest practicable date for the parties to arrive at the consideration prior to execution of the NA Transfer Agreement. We have reviewed the management accounts of the assets to be transferred and noted that their net asset value has been determined based on the net book value shown on the audited accounts, including depreciation and adjustment in accordance with the accounting policies consistently used in previous years. In connection with the assumption of business contracts by the TTE Group, which are business contracts originally executed between Thomson and other third parties, we understand from the Directors that the monetary value of the annual obligation is arrived at based on the estimated liabilities under the existing Thomson contracts pertaining to TV products which may be transferred to TTE. We understand that subsequent to the Closing, the estimated liabilities include the continuing fulfilment of the contractual obligations by the TTE Group for and on behalf of Thomson NA Group, which contracts have already been entered into.

As set out in the Letter from the Board, the Directors expect that the transfer of employees from the Thomson Group to the TTE Group would provide TTE with its own dedicated sales and marketing force exclusively on TTE's television business. We have discussed with the Directors such arrangement and note that the NA Transfer Agreement will provide both strategic and financial benefits to the TTE Group:

(i) *Strategic benefits*

We have discussed with the Directors and note that the NA Transfer Agreement will provide (i) greater flexibility and better control of the strategic and operational direction of TTE by the Company as a result of less dependence on third parties; (ii) an experienced and fully dedicated sales force to TTE's TV business as a result of the transfer. Thomson Inc., being the exclusive agent for distributing TTE's TV products in North America currently, also act as a distributor for its OEM products and other products such as TV stands; and (iii) have the absolute control over the sales network, including better control of pricing, program administration, customer mix and internal cost structure.

(ii) *Financial benefits*

Apart from the strategic benefits that the transfer will bring to TTE, we understand from the management that TTE will enjoy cost savings as a result of the transfer. We have reviewed TTE's internal workings on (i) the historical figures on the actual agency fees paid by TTE pursuant to the existing NA Agency Agreement; (ii) actual employment costs of the 80 employees; (iii) the increase in payment of the trademark fee as a result of the termination of the NA Agency Agreement; and (iv) a 5% increase in revenue as a result of the Company's flexibility in responding to changes in the market. Based on TTE's current internal projection, we note that TTE will have a cost savings advantage of approximately USD1 million per year, taking into consideration the increased payment of trademark fee as a result of the termination of the NA Agency Agreement.

Given that the TTE Group will (i) have immediate access to experienced sales and marketing personnel and its own dedicated sales and marketing team; and (ii) enjoy both strategic and financial benefits as set out above, we concur with the view of the Directors that the NA Transfer Agreement is fair and reasonable in so far as the interests of the Company and the Independent Shareholders are concerned.

2.2 *European Master Transfer Agreement*

Pursuant to the European Master Transfer Agreement, Thomson Europe Group will transfer to the TTE Group the business activities comprising of product sales, marketing and management, design and styling activities related to TV, which are currently performed by Thomson Europe Group for TTE Group under the EMEA Agency Agreement and the Thomson Styling Services Agreement.

We have reviewed the European Master Transfer Agreement and note that four entities primarily related to the Europe Business Activities will be transferred. These entities comprise of certain fixtures and equipment which are primarily related to the Europe Business Activities, and the consideration to be paid for those entities is based on the net asset value reflected on the latest unaudited account of the Thomson Group as at 31 May 2005. We have reviewed the agreement and note that the total consideration under the European Master Transfer Agreement amounts to approximately €6.95 million (equivalent to approximately HK$69.5 million), which is comprised of the following:

— TTE shall assume approximately €5 million (equivalent to approximately HK$50 million) in connection with the severance payments to transferred Thomson employees and shall assume a maximum of €1 million (equivalent to approximately HK$10 million) over the minimal dismissal costs required by law in connection with redundancy payments to employees who are terminated by Thomson (which will be deducted from €5 million); and

— Thomson shall pay approximately €1.95 million (equivalent to approximately HK$19.5 million), being the net difference between (i) the assets transferred less the liabilities assumed by the TTE Group; and (ii) the shares value of the transferred Thomson entities.

We have discussed with the Directors and understand that out of approximately 605 employees of the Thomson Europe Group, TTE have identified approximately 325 employees related to the TV business to be transferred to the TTE Group upon Closing. The 325 employees identified are in the sales division related to the TV business of the Thomson Europe Group. Since TTE is only taking over the sales network from Thomson, it does not need the rest of the employees of the Thomson Europe Group. We also note that sales and marketing in Europe involved 11 different entities in 25 countries. TTE shall be responsible for the severance payments for those employees to be transferred to TTE and the redundancy costs if certain employees are terminated by the Thomson Europe Group. We have discussed with the management of TTE and note that TTE's obligations with respect to severance payments are estimated to be about €5 million (equivalent to approximately HK$50 million). The amount is calculated based on (i) an estimated number of transferred employees to be terminated by TTE subsequent to Closing; and (ii) an average severance payment for each employee, which is calculated based on the corresponding severance amount under the applicable law and the collective bargaining agreement, and is in line with the Thomson Europe Group's restructuring costs over the last few years. We have also discussed with the management of TTE the estimation and the methods used to calculate the potential monetary amount for severance costs. We note that since transferred employees to TTE will be offered the same or matching employment packages to those of Thomson, therefore, we are of the view that such estimation used by the TTE management is prudent. We note that although the payment to be made by TTE may increase or decrease as a result of the final number of employees to be determined subsequent to the Closing, however, given our (i) acknowledgement as to the TTE management's mechanism used to determine the potential monetary liability that TTE will have to pay or incur as a result of the transfer; and (ii) the estimated number of employees could be terminated by the TTE Group subsequent to the Closing, which in our view, is a prudent estimation, we are of the view that the calculation in arriving at €5 million (approximately HK$50 million) is fair and reasonable.

In addition, if employees refuse TTE Group's offer of employment and their employment is terminated as a result, TTE will assume (i) the minimum redundancy costs incurred by Thomson pursuant to the applicable laws and collective bargaining agreements of the affected employees; and (ii) any additional or customary severance costs, up to a maximum of €1 million (equivalent to approximately HK$10 million), incurred by Thomson (with TTE's prior approval if such incurrence is outside Thomson's standard practice) which exceeds such minimum redundancy costs. We have discussed with the Directors and understand that the management of TTE has assumed a certain number of the employees will refuse to be transferred to the TTE Group. The TTE Group has agreed to finance Thomson Europe Group's minimum legal dismissal costs, and any additional retrenchment costs of up to €1 million (equivalent to approximately HK$10 million), if such employees are retrenched. We understand that this amount is a cap, which TTE's payment will decrease if fewer employees, or even no employee refuse to be transferred to the TTE Group. In any event, this amount will be deducted from the €5 million (equivalent to approximately HK$50 million) severance payment.

We are of the view that since it is unclear as to (i) the exact number of employees to be made redundant subsequent to the Closing; and (ii) the choice of the employees in connection with the continuous employment with the TTE Group, it is inherently difficult to provide an exact monetary value in terms of the severance payment and redundancy costs, respectively. Notwithstanding that no exact monetary value can be arrived at currently, we have discussed with the management of TTE their underlying assumptions as to the "mechanism" used in arriving at the amount. Taking into consideration our analysis above, we agreed with the TTE management that the assumptions and method used to determine the potential monetary liability that TTE will have to pay or incur as a result of the transfer is fair and reasonable.

The Directors expect that the transfer of employees from the Thomson Europe Group to the TTE Group would provide TTE with its own dedicated sales and marketing force exclusively for TTE's television business, which arrangement provides both strategic and financial benefits to the TTE Group:

(i) *Strategic benefits*

We have discussed with the Directors and note that the European Master Transfer Agreement will provide (i) flexibility and better control of the strategic and operational direction of TTE by the Company as a result of less dependence on various third parties, as distribution network in Europe may involve 25 different countries; (ii) a fully dedicated sales force to TTE's TV business as a result of the transfer. Depending on the sales territories, currently, the Thomson Europe Group acts as the exclusive and non-exclusive agent for TTE with respect to all TV end-products in Europe, the Middle East and Africa. The Thomson Europe Group also acts as a distributor for certain OEM TV products and other products such as TV stands; and (iii) have the absolute control over the sales network, including better control of pricing, program administration, customer mix and internal cost structure.

(ii) *Financial benefits*

Apart from the strategic benefits that will bring to the TTE Group, we understand from the management that TTE will enjoy cost savings as a result of the transfer. We have reviewed the internal workings on (i) the actual agency fees paid by TTE pursuant to the existing EMEA Agreement; (ii) projected employment costs of 325 employees; (iii) the increase in payment of the trademark fee as a result of the termination of the EMEA Agreement; and (iv) an increase in revenue as a result of the Company's flexibility in responding to changes in the market. Based on TTE's current internal projection, we note that TTE will have a cost saving advantage in the agency fee of approximately €5 million (equivalent to approximately HK$50 million) per year, taking into consideration the increased payment of trademark fee as a result of the termination of the EMEA Agency Agreement. We have reviewed TTE's internal projection and understand that the €5 million (equivalent to approximately HK$50 million) savings is the difference between the fee paid to Thomson in the 1st half of 2005 and the actual cost of the sales and marketing of TTE in the 2nd half of 2005 after the transfer of the employees from the Thomson Europe Group. In addition, TTE has assumed a 5% increase in revenue as a result of the European Master Transfer Agreement.

We also note that four entities will be transferred pursuant to the European Master Transfer Agreement. We have reviewed the European Master Transfer Agreement and note that the consideration of transferred assets and transferred entities was based on the net asset value shown on the unaudited account of the Thomson Group as at 31 May 2005. We have discussed with the management of TTE and understand that unaudited figures were used (i) since assets will be transferred from different entities, there will not be any audited figure for such assets; and (ii) 31 May 2005, being the latest practicable date for the parties to arrive at the consideration prior execution of the European Master Transfer Agreement. In addition, since TTE is acquiring the transferred entities on a "going-concern" basis, which is still in operation and running at the time of transfer, we understand that the consideration will be subject to a price adjustment mechanism upon Closing (i.e. adjustment of the consideration if the net asset value at Closing is different from the original purchase price). Therefore, the actual consideration will vary, depending on the net asset value of the transferred entities as at the date of Closing. We note that pursuant to the European Master Transfer Agreement, the Thomson Europe Group covenants to conduct its business in accordance with the agreement, and is not allowed to, inter alia, dispose of, acquire, transfer any of the "identified" assets to be transferred to the TTE Group at Closing. Since the Thomson Europe Group has to conduct its business operations in accordance with its normal business practice until Closing, we are of the view that there will not be any material discrepancies between the original transferred price and the price at Closing. We further understand that such adjustment mechanism and covenant clauses are normal in acquiring companies on a going-concern basis.

Given that the TTE Group will (i) have immediate access to experienced sales and marketing personnel and its own dedicated sales and marketing team; and (ii) enjoy both strategic and financial benefits as set out above; we concur with the view of the Directors that the European Master Transfer Agreement is fair and reasonable in so far as the interests of the Company and the Independent Shareholders are concerned.

3. Related Agreements

As a result of the Transfer Agreements and to improve the future operations of TTE, the Group will enter into certain Related Agreements with the Thomson Group. Save for the Reimbursement Agreement Amendment, all transactions contemplated under the Related Agreement will constitute Continuing Connected Transactions of the Company, which will require the approval of the Independent Shareholders.

It should be noted that the Related Agreements form part of the Transfer Agreements, and their terms (i) were negotiated on arm's length basis; and (ii) 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 Thomson Group will generally be no less favorable than those provided to, or received from any independent third parties for the same and similar services.

3.1 Amended Angers Agreement

3.1.1 *The new terms*

Under the Existing Angers Agreement, TTE purchases TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products. The Amended Angers Agreement will give rise to, inter alia, the following material variations to the Existing Angers Agreement:

(i) Angers Factory will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services. Instead of selling TV products to TTE, Thomson will now provide the Subcontracting Service at the Angers Factory to TTE at an hourly rate consistent with the production cost structure currently in use at the Angers Factory. A minimum order of Subcontracting Service in terms of hours per semester will be guaranteed by TTE. The minimum order is determined with reference to (a) the historical production hours for the production of TV products at the Angers Factory; and (b) the estimated sales volume of TTE under the new operation model, after taking into account of its expected market conditions and the potential growth of the Group. We have reviewed the internal projections and noted that TTE has assumed a 5% increase in sales as a result of the European Master Transfer Agreement and under the new operation model. Given that TTE will have direct and full control over the production of TV products at the Angers Factory as well as the sales network as a result of the European Master Transfer Agreement, TTE will be able to be more responsive and cost-effective to meet market demands in producing the appropriate models and distribute them to the market, we are of the view that it is fair and reasonable to assume such an increase in sales;

(ii) under the Existing Angers Agreement, TTE had no right to influence or direct operations at the Angers Factory. Pursuant to the Amended Angers Agreement, however, Thomson will provide TTE flexibility (such as work time modulation, two shifts days organization) to match TTE's order for the Subcontracting Service;

(iii) Thomson will pay to TTE, on a quarterly basis over a five-year period, an amount corresponding to the difference between the production cost structure in use at the Angers Factory and the production cost structure in use at the European factory operations previously transferred to TTE pursuant to the Combination Agreement, which amount is not expected to exceed an average of €3.7 million (equivalent to approximately HK$37 million) per quarter; and

(iv) TTE will pay to Thomson a total amount of €20 million (equivalent to approximately HK$200 million) spreading over 5 years ranging from €6 million (equivalent to approximately HK$60 million) in 2005 to €2 million (equivalent to approximately HK$20 million) in 2009 to cover costs incurred in connection with having an operation model of Angers Factory acceptable to the parties. We have discussed with the management of TTE and understand that such costs are calculated based on studies of restructuring of this nature performed in the past estimating the costs to modify operations at the Angers Factory taking into account (i) the relevant labour laws in France; (ii) market practices; and (iii) company policy. We have reviewed the basis of the calculation of such costs and given that it (i) complies with the labour laws in France; and (ii) is in line with market practices with respect to restructuring of this nature in France, we are of the view that the basis for determining such costs is fair and reasonable.

In addition to the above variation, TTE shall, pursuant to the agreement, purchase certain old television assets at €1 (equivalent to approximately HK$10). We have reviewed the agreement and understand that materials used in the production ordered prior to 30 July 2004 will be transferred at a price to be negotiated between the parties on an arm's length basis at market value. We consider this to be fair given that these are materials used in the production of TV, which TTE Group will have to purchase for the continuous production of TV. Moreover, TTE has the right to request an appraisal of the materials if the parties disagree as to the value.

3.1.2 *The existing terms which remain unchanged*

As set out in the Letter from the Board, save for the above material variations, the major terms of the Existing Angers Agreement which are summarised below will remain unchanged and will be reinstated in the Amended Angers Agreement:

(i) TTE shall purchase certain fixed assets (mainly equipment) as listed in the Existing Angers Agreement (the "**Subject Assets**") for a nominal consideration of €1 (equivalent to approximately HK$10) (details as set out in the Merger Circular).

(ii) Should the aggregate book value of the Subject Assets to be transferred to TTE from the Angers Factory, which was approximately €9.7 million (equivalent to approximately HK$97 million) on 30 June 2005, be less than €8 million (equivalent to approximately HK$80 million), Thomson shall transfer other assets of the Angers Factory or cash to TTE to make up the shortfall. In other words, TTE will in any event receive assets and/or cash of total value of €8 million (equivalent to approximately HK$80 million) in return for the nominal consideration of €1 (equivalent to approximately HK$10).

(iii) Thomson may acquire new assets (the "**New Assets**") up to €8 million (approximately HK$80 million) in consultation with TTE to meet the TV production needs of 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 (equivalent to approximately HK$10) 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 (equivalent to approximately HK$80 million), Thomson shall transfer cash to TTE to make up the shortfall.

3.1.3 *Our view*

As set out above, TTE will have to pay a total amount of €20 million (equivalent to approximately HK$200 million) to Thomson. We note that, contrasting to the previous arrangement under the Existing Angers Agreement in which TTE does not have direct control over the production of TV products in the Angers Factory, following the Closing, the sales network as well as the production of the Angers Factory will be under the same management of TTE, giving the management full and direct control of the planned production and sales of TV products, thereby enabling TTE to be more cost-effective and responsive to the changing market demands. Therefore, the parties have mutually agreed that TTE will contribute partly to the reorganisation costs of the Angers Factory incurred by TTE under the new operation model. Based on our discussions with the management of TTE, we understand that TTE's share of the reorganisation costs of €20 million (equivalent to approximately HK$200 million) represents a proportionate share of the total projected costs over the next five years. We have discussed with the management of TTE and understand that such sharing ratio is derived by taking into account the new operation model under the Amended Angers Agreement and the estimated costs that may be incurred as a result. Given that (i) the new operation model will give TTE the strategic benefit of more direct control over the production mix of the TV products, which enables the production team together with the sales team of TTE to be more cost-effective and responsive to the changing market demands; and (ii) the sharing of the costs is based on the proportional amount of such estimated costs as a result of the new operation model under the Angers Agreement Amendment, we are of the view that such sharing ratio is fair and reasonable. Given that more of these costs are expected to be incurred in the earlier part of the five-year period following the new operation model under the Amended Angers Agreement, the payment of the €20 million (equivalent to approximately HK$200 million) over the five years will be on a reducing sliding scale, which is in line with the change of the production mix to other consumer electronic products at the Angers Factory.

We note that the term of the Amended Angers Agreement will be the unexpired term of the Existing Angers Agreement, i.e. the remaining term of approximately four years, which exceeds the three-year term as set out in Rule 14A.35 of the Listing Rules. As set out in the Merger Circular, the Angers Factory is part of Thomson's TV business but was not acquired by TTE in the Combination because it has significant higher operating cost than the rest of Thomson's TV business in Europe. Thomson, however, cannot use the TV manufacturing facilities at the Angers Factory 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, under the Existing Angers Agreement, the parties agreed to retain the Angers Factory and TTE will now utilize Angers Factory as a subcontractor for a period of five years, which shall give Thomson time to shift its operations at the Angers Factory. At the time of the distribution of the Merger Circular, the Directors were of the view that the timetable was not expected to be completed within three years, and there was a five-year lock-up period (subject to transfer restrictions imposed from and after the third anniversary of the Merger Closing Date) of the Company and Thomson. At the time, we were of the view that the duration of the Existing Angers Agreement justified a period longer than three years and considered it to be business practice for the duration of the Existing Angers Agreement to be five years, which was in line with the anticipated reorganisation timetable. Given the terms of the Existing Angers Agreement is of a particular nature pursuant to the Combination, we are of the view that it is normal business practice for the contract to correspond to the intended reorganisation timetable, which is expected to be five years.

Save for the material variation of the Amended Angers Agreement as set out above, the rationale as to the term of the Amended Angers Agreement is the same as the Existing Angers Agreement. Given that (i) the rationale for the term of the Existing Angers Agreement remains unchanged under the Amended Angers Agreement; (ii) our view that the term of five years for the Existing Angers Agreement is fair and reasonable and in the interests of the Company and the Independent Shareholders, as set our in our letter in the Merger Circular, remains the same as for the term of approximately four years, being the unexpired term of the Existing Angers Agreement, for the Amended Angers Agreement; and (iii) the Independent Shareholders had already approved the Existing Angers Agreement, including the term of five years which exceeds the three-year term, in the extraordinary general meeting held on 2 July 2004, we are of the view that the term of the Amended Angers Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of (i) the inter-related nature of this agreement with the Transfer Agreement, which is an integrated part of the overall arrangement between the Company and the Thomson Group; and (ii) the Directors' view that direct control over production as well as the sales and distribution network enable the TTE Group to be more responsive to changing market demands, thereby creating more synergies within the TTE Group, and (iii) our view on the existing terms of Existing Angers Agreement, which will be restated in the

Angers Agreement Amendment, as set out in our letter in the Merger Circular which has been approved by the Independents Shareholders in July 2004, remains unchanged, we are of the view that the terms of the Amended Angers Agreement are fair and reasonable in so far as the interests of the Company and the Independent Shareholders are concerned.

3.2 ***Trademark Agreement Amendment***

3.2.1 *Background*

Pursuant to the Trademark Agreement, Thomson granted 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 North America, Europe and other regions. We have reviewed the agreement and note the following factors:

(i) TTE shall not be required to pay any royalty to Thomson prior to the second anniversary of the Merger 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;

(ii) 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 (the "**Base Rate**"); and

(iii) upon termination of the NA Agency Agreement and EMEA Agency Agreement, the Base Rates will increase by 0.5% for Thomson A Brands and 0.25% for Thomson B Brand (the "**Margin Rate**").

3.2.2 *The new terms*

We understand that the reason for such increase is to compensate Thomson for loss of revenue resulting from termination of the agency agreements. As set out above, under the Trademark Agreement, TTE is required to pay the additional Margin Rate in addition to the Base Rate a result of the termination of the agency agreements. Pursuant to the Trademark Agreement Amendment, we understand that Thomson will charge TTE (i) a margin of 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively for the period from 21 July 2005 to 21 April 2008; and (ii) thereafter, the Margin Rate, which TTE will have to pay upon termination of the NA Agency Agreement and EMEA Agency Agreement. We understand that the Trademark Agreement Amendment provides a more favourable rate (against the Margin Rate) to be payable by TTE to Thomson for the termination of the agency agreements, which the TTE Group is bound to pay pursuant to the Trademark Agreement. In this connection, we are of the view that the Trademark Agreement Amendment is fair and reasonable.

3.2.3 *The existing terms remain unchanged*

Save for the new terms as mentioned above, major terms of the Trademark Agreement will remain unchanged which are summarised as follows:

(i) 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 A Brands of Thomson in the relevant territories for the previous fiscal year.

(ii) Thomson shall reinvest the 0.5% trademark license fees payable by the TTE Group to Thomson in respect of 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 A Brands of Thomson.

(iii) 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 will be incurred between the date of the agreement and the 5th anniversary in

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

(b) recording the agreement; and

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

3.2.4 *Our view*

We have discussed with the Directors and noted that “RCA” Brand and the “Thomson” Brand are well recognised brands in the market, with approximately 8% and approximately 6% market share in the U.S. and Europe, respectively, in 2004. We understand from the Directors that 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 TTE. We further understand that business from TV sales in Europe and North America accounted for approximately 31% and 25% of TTE’s overall TV business, respectively. One of the main objectives in entering into the joint venture with the Thomson Group in 2004 was to leverage on the “Thomson” and “RCA” brands in Europe and in U.S., which the Directors considered as one of the key assets attaching to TTE. We note that leveraging on the success of well-known brands is one of the most commonly used business strategies to further develop and explore new markets.

We note that the term of the Trademark Agreement Amendment will be the unexpired term of the Trademark Agreement (i.e. the remaining term of approximately 19 years) which exceeds the three-year term as set out in Rule 14A.35 of the Listing Rules.

As set out in the Merger Circular, the establishment of TTE is a commitment from the Company and the Thomson Group to combine their respective TV businesses in the PRC, U.S. and Europe, in which the parties are subject to lock-up periods in the shareholdings in TTE. As explained above, the Directors considered that the value of the "Thomson" and "RCA" brands in Europe and in the U.S. was one of the key assets of TTE. As set out in our letter in the Merger Circular, we noted 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, therefore, we were of the view that limiting the term of the Trademark Agreement to three years would be harmful to the interests of the Company and its Shareholders as a whole because the Group would not be able to fully extract and utilize the goodwill of the "Thomson", "RCA" and other licensed brands, which would otherwise require a significant amount of additional investment to develop new brands for those markets. Also, we have reviewed publicly available information on companies listed on the Hong Kong Stock Exchange and noted that duration of most intellectual property agreements i.e. trademark license agreements, trademark and brands licensing agreements and technology license agreements have a term of longer than three years. Therefore, we were of the view that it was beneficial for the Company to enter into the Trademark Agreement for a longer duration in order to enable the Group to continue the distribution of such branded products without unnecessary interruption. Furthermore, 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 considered it to be normal business practice for the Company to secure the Trademark Agreement with a maximum term of 20 years.

Save for the changes under the Trademark Agreement Amendment as set out above, the rationale as to the term of the Trademark Agreement Amendment is the same as the Trademark Agreement. Given that (i) the rationale for the term of the Trademark Agreement remains unchanged under the Trademark Agreement Amendment; (ii) our view that the term of 20 years for the Trademark Agreement is fair and reasonable and in the interests of the Company and the Independent Shareholders, as set our in our letter in the Merger Circular, remains the same as for the term of approximately 19 years, being the unexpired term of the Trademark Agreement, for the Trademark Agreement Amendment; and (iii) the Independent Shareholders had already approved the Trademark Agreement, including the term of 20 years which exceeds the three-year term, in the extraordinary general meeting held on 2 July 2004, we are of the view that the term of the Trademark Agreement Amendment is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given that (i) the margin rate provided for in the Trademark Agreement Amendment (i.e. 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively) is more favourable than the Margin Rate, which TTE is obligated to pay Thomson upon termination of the agency agreements (i.e. 0.5% and 0.25% for Thomson A Brands and Thomson B Brand, respectively); and (ii) our

view on the existing terms of Trademark Agreement, which will be reinstated in the Trademark Agreement Amendment, as set out in our letter in the Merger Circular which has been approved by the Independents Shareholders in July 2004, remains unchanged, we are of the view that the terms of the Trademark License Amendment are fair and reasonable in so far as the interests of the Company and the Independent Shareholders are concerned.

3.3 ***NA Service Agreement***

We understand that the product after-sales and logistics activities under the NA Agency Agreement will not be transferred to TTE but will continue to be provided by Thomson NA Group for TTE. In this connection, TTE will appoint Thomson Inc. as its service provider, to provide (i) exclusive after-sales; and (ii) non-exclusive logistics and other services in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designated to be sold in the North America. The agreement will take effect on the Closing Date and continue in force for a term of three years unless terminated earlier by the parties in accordance with the agreement. In addition, TTE will have the sole option to renew the agreement on the same terms for an additional 12 to 18 months. As TTE has the sole discretion to renew the agreement on the same terms without any additional costs, we are of the view that such option to renew the agreement is fair and reasonable to the TTE Group. In the event that TTE chooses to exercise the option to renew the agreement, the TTE Group will comply with the relevant requirements in the Listing Rules, including obtaining the approvals from the Independent Shareholders.

We have discussed with the Directors and noted that apart from the quality of a product, “after sales service” constitutes an important element in TTE’s TV sales. Currently, the Thomson NA Group has been providing after-sales services to the TTE Group pursuant to the NA Agency Agreement. The Directors are of the view that continuous co-operation with the Thomson NA Group on after sales service provides stability and quality of services to its customers. We have reviewed the NA Service Agreement and note that Thomson Inc. is charging TTE at cost for such services, i.e. if the after sales services are performed by other service providers through Thomson NA Group, TTE shall only be responsible for the costs of the third parties. In addition, TTE will reimburse Thomson Inc. all costs and expenses incurred by the Thomson NA Group for the provision of the services under the agreement. We are unable to conduct any research as to whether the “costs” charged by Thomson will be higher or lower than that charged by other services providers (as there is no publicly available figures on “after sales” service alone, and given the magnitude of the after sales services to be provided by the Thomson NA Group under this agreement). In addition, we understand from the management of TTE that the Thomson NA Group has not been providing similar after sales services to any independent third party.

Given (i) the quality of the after sales services that the Thomson NA Group has been providing to TTE’s TV products in the U.S. and Canada currently; (ii) continuous provision of the services by the Thomson NA Group will not be disrupted as a result of the NA Transfer Agreement; and (iii) the service fee charged by Thomson Inc., which is at cost, we are of the view that the terms of the NA Service Agreement are fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

3.4 *Thomson Laboratory Agreement*

TTE Technology Inc. will appoint Thomson Inc., as an independent contractor and on a non-exclusive basis, to provide laboratory services for TV and related products to be developed by or for the TTE research and development laboratory located in the North America. We understand that the laboratories in the North America will continue to test materials and finished TV products. Pursuant to the Thomson Laboratory Agreement, we note that Thomson Inc. will charge TTE Technology Inc. at cost for the services provided. However, TTE will be required to commit to a minimum service in the amount of US$500,000 (equivalent to approximately HK$3.9 million) annually to cover the fixed costs for the service to be provided.

We have discussed with the management of TTE that the budgeted amount under Thomson Laboratory Agreement for year ended 31 December 2005 is US$750,000 (equivalent to approximately HK$5.85 million). The budgeted amount for the laboratory agreement is based on the estimated number of models, which for 2005, will run at historical similar levels. The basis for the US$750,000 (equivalent to approximately HK$5.85 million) is based on the (i) historical figures; (ii) the historical frequencies in utilising the laboratory services; and (iii) the estimated number of models in 2005.

We understand from the Directors that competition in the U.S. was driven towards high-end TV models, and as set out in the latest annual report of the Company, a total of 30 new models in the U.S. have been introduced since the operation of TTE in July 2004. The Directors are of the view that the Group will continue to deploy testing resources for high-end TVs, including a wide range of LCS and plasma TV. We have discussed with the Directors and understand that currently, TTE's arrangement with Thomson Inc. for the provision of laboratory services, includes, but is not limited to testing of TV products in the areas of safety, compliance, reliability and environmental concerns. Product safety is one of the vital elements of TTE's TV products, and Thomson Inc. is currently providing these same services to TTE's products.

Given the services (i) will be obtained on a non-exclusive basis; and (ii) Thomson is charging TTE at cost for the services provided, we are of the view that the terms of the Thomson Laboratory NA Service Agreement are fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

3.5 *Europe After Sales Agreement*

We understand that the product after-sales activities under the EMEA Agency Agreement will not be transferred to TTE but will continue to be provided by Thomson Sales Europe for TTE. In this connection, TTE will appoint Thomson Sales Europe as its exclusive service provider, to provide after-sales services (including consumer inquiries, warranty management, repair and rework, service contracts and E-business) with respect to TV and related products of the TTE Group sold or designated to be sold in major European countries except Eastern Europe and Scandinavian countries. The agreement will take effect on the Closing Date and continue in force for a term of three years unless terminated earlier by the parties in accordance with the agreement. In addition, TTE will have the sole option to renew the agreement on the same terms for an additional 12 to 18 months. As TTE has the sole discretion to renew the agreement on the same terms without any additional costs, we are of the view that such option to renew the agreement is fair and reasonable to the TTE Group. In the event that TTE chooses to exercise the option to renew the agreement, the TTE Group will comply with the relevant requirements in the Listing Rules, including obtaining the approvals from the Independent Shareholders.

We have discussed with the Directors and noted that apart from the quality of a product, "after sales service" constitutes an important element in TTE's TV sales. Currently, Thomson Sales Europe has been providing similar services to the TTE Group pursuant to the EMEA Agency Agreement. The Directors are of the view that continuous co-operation with Thomson Sales Europe on after sales service provides stability and quality of services to its customers. We have reviewed the Europe After Sales Agreement and note that after-sales services performed by Thomson Sales Europe for products bearing Thomson A Brands and Thomson B Brand in such countries will be free of charge. Whereas for products not bearing Thomson A Brands or Thomson B Brand, Thomson will charge TTE a rate, which rate will vary on a case-by-case basis, but is expected to be not less favourable than those offered to an independent third party.

We have discussed with the Directors and understand that in consideration of appointing Thomson Sales Europe as TTE's exclusive distributor of spare parts of its TV and its end products in certain European countries, Thomson Sales Europe will provide free after sales services with respect to Thomson A Brands and Thomson B Brand. We understand that Thomson Sales Europe has been supplying spare parts and other services to TTE. For products other than Thomson A Brands and Thomson B Brand, Thomson Sales Europe will charge at a rate to be mutually agreed on a case by case basis. We have discussed with the management of TTE and understand that since it is uncertain as to the complexity (i.e. nature of products, countries and brand) that require the after sales services from Thomson Sales Europe, the parties are unable to arrive at a mechanism for the after-sales services, apart from Thomson A Brands and Thomson B Brand. Although no fixed rate has been agreed, we note that parties have agreed that such rate will not be less favourable than those offered to an independent third party as and when the services will be provided by Thomson Sales Europe.

Given that (i) there are more than 6,000 different varieties of TV products spare parts, some of which are peculiar to TV products bearing the "Thomson" brand; (ii) TTE is not required to pay any monetary value to Thomson Sales Europe for distribution of its spare parts and in return, Thomson Sales Europe provides free after sales services to TTE's Thomson brand TV products; and (iii) the service fee charged by Thomson Sales Europe, which will not be less favourable than those offered to independent third parties, we are of the view that the terms of the Europe After Sales Agreement are fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

3.6 ***TTE Logistics Agreement***

Thomson is providing logistics operations for TTE currently. As a result of the Transfer Agreements, certain Thomson's employees responsible for logistics operations will be transferred to TTE. In this connection, Thomson will appoint TTE to provide to Thomson Sales Europe logistics management services (including management and follow-up of the performance of logistics contracts, management of logistics costs savings programs and re-engineering projects initiated by Thomson) with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designated to be sold in Europe and some other countries.

Thomson Sales Europe will pay to TTE a service fee of €240,000 (equivalent to HK$2.4 million) per year charged at cost. As the logistics services is provided internally within the Thomson Group, no historical on logistic services alone is available. However, we have discussed with the management of TTE that the costs was determined based on the actual cost of dedicated resources of the equivalent of 2.5 full-time employed persons, and is arrived at after arm's length negotiation.

We note that the TTE Logistics Agreement will be effective on the Closing Date and will continue in force until 31 December 2008 unless terminated earlier by the parties thereto in accordance with the provisions therein, which exceeds the three-year term as set out in rule 14A.35 of the Listing Rules. We have discussed with the Directors the duration of the agreement and note that Thomson Group has its financial year end on 31 December, and the existing agreements of Thomson Sales Europe with the logistics suppliers will last until the end of the year, and TTE will manage these suppliers for Thomson under the TTE Logistics Agreement. We are of the view that the duration set for this agreement to exceed the three-year term just by approximately three months to end on 31 December, the date of financial year end is for an administrative purpose to save cost. In addition, as the Company is the service provider and will receive service income, we are of the view that it is normal business practice for contracts of this type, i.e. where the service provider has a similar business nature with the Company, is the fee recipient. This contract enables the TTE Group to (i) take the advantage of securing longer term contracts, in which the TTE Group is the service fee recipient; and (ii) accommodate cost savings administrative requirements of the Thomson Group (being a business partner of the TTE Group) for the agreement to be of such duration in order to cover the full financial year of the Thomson Group, which is governed under a different regime.

Given that (i) TTE Group will receive a fee from Thomson Sales Europe; and (ii) the logistics service was originally provided by the Thomson as an existing operation without the deployment of new resources by the TTE Group, we are of the view that the terms of the TTE Logistics Agreement, including the duration of the agreement, are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

3.7 *TTE Styling Agreement*

Thomson will engage the TTE Group as an independent contractor, on a non-exclusive basis, to provide to the Thomson Group the styling services (such as industrial design, design development, strategic design and graphic design) for and with respect to Thomson's products. The service fee will be charged by TTE at cost. The agreement will be effective on the Closing Date and continue in force for a term of one year. We have discussed with the TTE Group what constitute "costs" under this agreement, and we understand from the management that the costs were determined based on the resources allocated to the Thomson Group to develop and design specific aesthetics. This fee is a minimum to be invoiced to Thomson even if Thomson don't use the resources. The Thomson Group will be charged if they required for more services from the TTE Group.

We understand that such services are currently carried out by Thomson. As a result of the Transfer Agreements, the design and styling activities will be transferred to the TTE Group. We have reviewed the agreement and note that TTE will charge the Thomson Group at cost for the services provided. We note that Thomson has to provide a list of styling services to be rendered two and a half months in advance for styling services to be provided by TTE during the first half of 2006.

Given that (i) TTE is not required to provide any particular service to the Thomson Group, i.e. priority of services to be provided to the Thomson Group; (ii) styling services have been provided by the Thomson Group to TTE since the Combination, and as a result of the Transfer Agreements, such activities will be transferred to the TTE Group; and (iii) the Thomson Group will be providing to TTE various services pursuant to the NA Transfer Agreement, Europe After Services Agreement and Thomson Laboratory Agreement at cost, we are of the view that the terms of the TTE Styling Agreement are fair and reasonable in so far as the Company and the Independent Shareholders are concerned.

4. Proposed Annual Caps for the Continuing Connected Transactions

As stated in the Letter from the Board, the Company proposes to set the following annual caps (the "**Annual Caps**") for each of the categories of the Continuing Connected Transactions for the Group for the three financial years ending 31 December 2007:

		Proposed Annual Caps for the financial year ending 31 December		
Continuing Connected Transactions		**2005**	**2006**	**2007**
			(HK$ million)	
1.	Amended Angers Agreement	335	350	320
2.	Trademark Agreement Amendment	40	105	125
3.	NA Service Agreement	25	50	52
4.	Thomson Laboratory Agreement	3	6	4.5
5.	Europe After Sales Agreement	0.5	1.0	1.0
6.	TTE Logistics Agreement	1.3	2.5	2.5
7.	TTE Styling Agreement	8.5	8.5	N/A

In determining whether the above Annual Caps proposed by the Company are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole, we have discussed with the Directors the basis for setting the respective Annual Caps for the Continuing Connected Transactions and have reviewed the following factors:

4.1 *Amended Angers Agreement*

4.1.1*Background*

As set out above in section 3.1, under the Existing Angers Agreement, TTE purchases TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products. The Amended Angers Agreement will give rise to, inter alia, the following material variations to the Existing Angers Agreement:

(i) Angers Factory will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services. Instead of selling TV products to TTE, Thomson will now provide the Subcontracting Service at the Angers Factory to TTE at an hourly rate consistent with the production cost structure currently in use at the Angers Factory. A minimum order of Subcontracting Service in terms of hours per semester will be guaranteed by TTE.

(ii) Under the Existing Angers Agreement, TTE had no right to influence or direct operations at the Angers Factory. Pursuant to the Amended Angers Agreement, however, Thomson will provide TTE flexibility (such as work time modulation, two shifts days organization) to match TTE's order for the Subcontracting Service

(iii) Thomson will pay to TTE, on a quarterly basis over a five-year period, an amount corresponding to the difference between the production cost structure in use at the Angers Factory and the production cost structure in use at the European factory operations previously transferred to TTE pursuant to the Combination Agreement, which amount is not expected to exceed an average of €3.7 million (equivalent to about HK$37 million) per quarter.

(iv) TTE will pay to Thomson a total amount of €20 million (equivalent to HK$200 million) spreading over 5 years ranging from €6 million (equivalent to about HK$60 million) in 2005 to €2 million (equivalent to about HK$20 million) in 2009 to cover the costs incurred in connection with having an operation model of Angers Factory acceptable to the parties.

4.1.2 *Basis of the Annual Caps*

Based on our discussions with the management of TTE, we understand that the calculation of the Annual Caps under the Amended Angers Agreement for the three financial years ending 31 December 2007 are based on the aggregate of (i)

TTE's payment for the Subcontracting Service, and (ii) TTE's payment for the reorganisation costs. The basis of calculation of each of the two components is as follows:

(i) TTE's payment for the Subcontracting Service

The calculation of TTE's payment for the Subcontracting Service is based on (a) the number of hours of commitment ("**Commitment Hours**") in that particular year, and (b) the hourly rate which is consistent with the cost structure of the Angers Factory.

Under the Amended Angers Agreement, the Commitment Hours for the three years ending 31 December 2007 is estimated to be about 370,000 hours, 400,000 hours and 375,000 hours respectively. The reason for the decrease in 2007 is due to the natural and gradual shift of the production hours for the production of TV products to other consumer electronic products, which is in line with the new operational model. Based on the discussions with the management of TTE, we note that the hourly rate used for purposes of calculation of the Annual Caps under the Amended Angers Agreement for the three financial years ending 31 December 2007 is the same as the currently hourly rate at the Angers Factory.

(ii) TTE's payment for the reorganisation costs

Based on the studies performed in the past in estimating the reorganisation costs of the Angers Factory, Thomson and TTE has agreed that TTE will pay to Thomson a total amount of €20 million (equivalent to approximately HK$200 million) over five years with €6 million (equivalent to approximately HK$60 million) in 2005; €5 million (equivalent to approximately HK$50 million) in 2006; €4 million (equivalent to approximately HK$40 million) in 2007; €3 million (equivalent to approximately HK$30 million) in 2008; and €2 million (equivalent to approximately HK$20 million) in 2009, to cover the costs incurred in connection with the new operations model of the Angers Factory under the Amended Angers Agreement. Based on our discussions with the management of TTE, we understand that TTE's share such costs represents TTE's proportionate percentage of the total projected costs over the next five years. We have discussed with the management of TTE and understand that such sharing ratio is derived at taking into account the new operation model under the Amended Angers Agreement and the estimated amount of the resulting costs. Given that (i) the new operation model will give TTE the strategic benefit of more direct control over the production mix of the TV products, which enables the production team together with the sales team of TTE to be more cost-effective and responsive to the changing market demands; and (ii) the sharing of such costs is based on TTE's proportionate amount of the resulting costs of the new operation model under the Angers Agreement Amendment, we are of the view that such sharing ratio is fair and reasonable.

4.1.3 *Our view*

Since the Amended Angers Agreement gives rise to material variation to the Existing Angers Agreement, the Annual Caps are not comparable to those in the Merger Circular as previously approved by the Independent Shareholders.

Following the Combination, Angers Factory was not transferred to TTE, however, under the new arrangement, TTE will employ the Angers Factory as a subcontractor for a period of five years, which will give Thomson time to modify its operations at the Angers Factory, with a view to streamline and reduce its production of TV products and shift to the production of other consumer electronic products. As part of the reorganisation of the Angers Factory, the production of TV products will be reduced progressively over the five-year period following the Combination. We understand from the management of TTE that the historical number of factory production hours for the production of TV products at the Angers Factory ("**Factory Hours**") in 2003 and 2004 were approximately 750,000 and 690,000 hours per annum respectively.

Pursuant to the Amended Angers Agreement, the Commitment Hours for 2005 will retrospectively count from 1 April 2005. Therefore, 370,000 Commitment Hours used for the calculation of the Annual Cap, representing approximately 70% of the Factory Hours in 2005, is in line with the pro-rata ratio (i.e. 75%) of the Factory Hours of 530,000 hours projected for the full year of 2005. As for 2006 and 2007, the Commitment Hours will further decrease by approximately 24.5%, and 6.5% respectively on a year-on-year basis, which is in line with the modified operations timetable to gradually shift the production hours for the production of TV products to the production of other consumer electronic products. The following table lists out the Commitment Hours as compared to the historical Factory Hours.

Comparison of Commitment Hours to historical Factory Hours

% of Commitment Hours to Factory Hours		**Commitment Hours 2005**	**2006**	**2007**
		530,000	400,000	370,000
Year	**Factory Hours**			
2003	750,000	71%	53%	49%
2004	690,000	77%	58%	54%

As shown from the above table, the Commitment Hours for the three years from 2005 to 2007 are in the decreasing trend and represent a range of approximately 49% to 77% of the historical Factory Hours, which is in line with the corporate strategy for the Angers Factory to reduce its production of TV products progressively and shift its production to other consumer electronic products in the future.

We have discussed with the management of TTE and understand that the hourly rate is based on the production cost structure (including direct and indirect costs) of the Angers Factory in 2004, and the same hourly rate is used for the calculation of the Annual Caps for all three years of 2005, 2006 & 2007. We have reviewed various research reports and note that the deflation rate of France in 2003 and 2004 was approximately 1.5% and 1.8% respectively, and the outlook for 2005 and 2006 are still with a deflation rate of approximately 1.8%.

Contrasting to the previous arrangement under the Existing Angers Agreement in which TTE does not have direct control over the production of TV products in the Angers Factory, following the Closing, the sales network as well as the production of the Angers Factory will be under the same management of TTE, giving the management full and direct control of the planned production and sales of TV products, enabling TTE to be more cost-effective and responsive to the changing market demands. Therefore, it has been mutually agreed that TTE will contribute partly to the costs of the Angers Factory incurred by TTE under the new operation model pursuant to the Amended Angers Agreement. Based on our discussions with the management of TTE, we understand that TTE's share of such costs of €20 million (equivalent to approximately HK$200 million) represents TTE's proportionate percentage of the total projected costs over the next five years. Given that the sharing of such costs is based on TTE's proportionate amount of the resulting costs of the new operation model under the Angers Agreement Amendment, we are of the view that such sharing ratio is fair and reasonable. Also, we understand that greater costs are expected to be incurred in the earlier part of the five-year period following the new operation model under the Amended Angers Agreement, the distribution of the €20 million (equivalent to approximately HK$200 million) in the proportion of 30%, 25%, 20%, 15%, and 10% over the five years are on a reducing sliding scale, which is in line with the change of the production mix to other consumer electronic products at the Angers Factory.

Having considered the above as a whole and given that (i) the Amended Angers Agreement will give TTE direct control and flexibility on the production of TV products at the Angers Factory, so that TTE will have a more integrated management of planned production and sales of TV products, enabling it to be more cost-effective and responsive to meet changing market demands; (ii) TTE will be compensated for the difference in costs between the Angers Factory and that of the European factory previously transferred to TTE pursuant to the Combination Agreement; (iii) the Commitment Hours are lower than the historical Factory Hours, and in line with the new operational plan at the Angers Factory; (iv) the hourly rate used for the calculation of the Annual Caps from 2005 to 2007 is within the range of price change in the French economy in the same period; and (v) the distribution of the €20 million over the next five years is on a reducing sliding scale and in line with the new operational plan at the Angers Factory, we are of the view that the basis in determining and the calculation of the Annual Caps under the Amended Angers Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.2 *Trademark Agreement Amendment*

Under the existing Trademark Agreement, the royalties payable to Thomson are linked with the performance of the TTE Group, and calculated by reference to the net sales of TV products and the applicable royalty rates. Depending on whether the consolidated EBIT margin of the TTE Group for the applicable year falls under 3%, between 3% and 6%, or 6% or over respectively, the Base Rate (i.e. 0.5%, 1% or 2% for Thomson A Brands and 0.25%, 0.5% or 1% for Thomson B Brand) will apply. The Trademark Agreement provides that on termination of the NA Agency Agreement and the EMEA Agency Agreement, the Base Rate will be increased by the Margin Rate (i.e. 0.5% for Thomson A Brands and 0.25% for Thomson B Brand). The reason for the increase is to compensate Thomson for loss of revenue resulting from termination of the agency agreements. Given that (i) this is one of the terms which was taken as a whole with the other terms of the existing Trademark Agreement, in which we have given our view, as well as the reasons, that the Trademark Agreement was fair and reasonable in the Merger Circular; and (ii) the Independent Shareholders had approved such agreement in July 2004, we are of the view that such a term is fair and reasonable in so far as the interests of the Company and the Independent Shareholders are concerned. Pursuant to the existing Trademark Agreement, no Base Rate is payable by TTE to Thomson prior to 30 July 2006, the second anniversary of the Merger Closing Date.

The Transfer Agreements will terminate the NA Agency Agreement and the EMEA Agency Agreement, and Thomson will no longer receive agency fees from TTE. As mentioned above, pursuant to the termination provision under the existing Trademark Agreement, the Margin Rate payable by TTE to Thomson is 0.5% and 0.25% for Thomson A Brands and Thomson B Brand respectively. However, under the Trademark Agreement Amendment, the Margin Rate payable to Thomson will be lowered to 0.4% and 0.2% for Thomson A Brands and Thomson B Brand respectively for the period from 21 July 2005 to 21 April 2008, and thereafter the Margin Rate will be the same as that originally stipulated in the existing Trademark Agreement. Notwithstanding the waiver of the Base Rate until the second anniversary of the Merger Closing Date, pursuant to the Trademark Agreement, is still valid under the Trademark Agreement Amendment, the Margin Rate is payable during all periods.

Based on our discussions with the management of TTE, we understand that the calculation of the Annual Caps under the Trademark Agreement Amendment is based on the (i) internal projections of TV sales of the TTE Group for the purpose of the calculation of the Annul Caps (the "**Sales Projections**") for each of the three financial years ending 31 December 2007; (ii) an increase of approximately 5% per annum on the Sales Projections for the same period; and (iii) the applicable Base Rate and/or Margin Rate where applicable under the Trademark Agreement Amendment.

We have reviewed the Sales Projections and have discussed with the management of TTE. We understand that the TV sales of the TTE Group under Thomson A Brands and Thomson B Brand for the five months in 2004 was approximately US$992 million (equivalent to approximately HK$7.74 billion), which on an annualised basis would have amounted to approximately US$2.38 billion (equivalent to approximately HK$18.5 billion). The Sales Projections for 2005, 2006 and 2007 are approximately US$1.9 billion (equivalent to approximately HK$14.8 billion), US$2 billion (equivalent to approximately HK$15.6 billion) and US$2.1 billion (equivalent to approximately HK$16.4 billion) respectively, which represents a compound annual growth rate ("**CAGR**") of approximately 5% for the same period. We note that the Sales Projections in 2005 to 2007 are lower than the annualised amount in 2004, which is mainly due to anticipated market competition. We have reviewed research reports issued by various international securities firms and note that the projected CAGR of the TV sales for the period of 2005 to 2010 is approximately 8.3%.

We also note that the Annual Cap for 2005 is less than half of those for 2006 and 2007. This is mainly due to the fact that (i) only 5 months in 2005 are counted commencing from August 2005; (ii) the Margin Rates of 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively, are only applicable for 2005 because the Base Rate is waived until July 2006, as compared to both the Base Rate as well as the Margin Rate, giving a total rate of 0.9% and 0.45%, that will be applicable for Thomson A Brands and Thomson B Brand respectively from August 2006 onwards. As mentioned in section 3.2 above, given that (i) the Margin Rates of 0.4% and 0.2% for Thomson A Brands and Thomson B Brand, respectively, under the Trademark Agreement Amendment, are lower than the Margin Rates of 0.5% and 0.25% for Thomson A Brands and Thomson B Brand, respectively, under the existing Trademark Agreement, which is more favourable to TTE as it would have to pay less to Thomson under the Trademark Agreement Amendment, and (ii) the Base Rate, in any event, will be applicable from August 2006 onwards under both the existing Trademark Agreement and the Trademark Agreement Amendment, we are of the view that the calculation of the Base Rate and Margin Rate under the Trademark Agreement Amendment is fair and reasonable.

Having considered the above as a whole and given that (i) the Sales Projections are lower than the annualised sales in 2004 and (ii) the CAGR of the Sales Projections are in line with the market forecast, we are of the view that the basis in determining and the calculation of the Annual Caps under the Trademark Agreement Amendment are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.3 *NA Service Agreement*

Following the Closing, the after-sales and logistics activities under the NA Agency Agreement will not be transferred to TTE, therefore, Thomson NA Group will continue to provide these services to TTE. Under the NA Service Agreement, TTE will appoint Thomson Inc. to provide (i) after-sales services on an exclusive basis; (ii) logistics services on a non-exclusive basis; and (iii) other services on a non-exclusive basis, in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designated to be sold in the North America (collectively referred to as the "**NA Services**"). TTE will pay to Thomson Inc. all costs and expenses incurred by Thomson for the provision of the NA Services at cost. The NA Service Agreement will be effective on the Closing Date and for a term of three years unless terminated earlier by the parties in accordance with the provisions of the agreement.

Based on our discussions with the management of TTE, we understand that the calculation of the Annual Caps under the NA Service Agreement is based on (i) the historical cost of the NA Services; and (ii) adjustment of inflation on costs.

As the NA Service Agreement will be entered into in the second half of 2005, the amount of the Annual Cap for NA Services in 2005 is about half of that for 2006 and 2007. On an annualised basis, the CAGR of the Annual Caps from 2005 to 2007 is approximately 3%, which is adjusted by the inflation factor.

According to the management of TTE, the amount of NA Services incurred in the second half of 2004 after the Combination was approximately US$11 million (equivalent to approximately HK$86 million). The projected NA Services for the second half in 2005 is approximately US$3.1 million (equivalent to approximately HK$24 million), which is significantly reduced from the amount in 2004, mainly due to many of the functions formerly provided by Thomson will then be done by TTE under the NA Transfer Agreement. We have conducted research on the inflation of the North American economies and note that the change of consumer prices of the United States for 2005 and 2006 are approximately 2.7% and 2.4% respectively; and that for Canada are approximately 2.1% and 1.9% respectively.

Having considered the above as a whole and given that (i) the projected NA Services are priced on a cost basis in which TTE does not need to pay any additional margin to Thomson Inc., (ii) the projected NA Services are significantly reduced from historical level as many of the functions previously performed by Thomson will be transferred to TTE; and (iii) the inflation adjustment factor is in line with general market expectation, we are of the view that the basis in determining and the calculation of the Annual Caps under the NA Service Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.4 *Thomson Laboratory Agreement*

Under the Thomson Laboratory Agreement, TTE Technology Inc. will appoint Thomson Inc., as an independent contractor, on a non-exclusive basis, to provide the laboratory services for TV and related products being developed by, or for the TTE research and development laboratory located in North America (the "**Laboratory Services**"). The fee for the Laboratory Services will be charged by Thomson Inc. to TTE at cost. However, TTE will be required to commit to a minimum service in the amount of US$500,000 (equivalent to approximately HK$3.9 million) each year to cover the fixed costs for the Laboratory Services. The Thomson Laboratory Agreement will be effective on the Closing Date and for a term of two years unless terminated earlier by the parties in accordance with the provisions of the agreement.

We have discussed with the management of TTE and note that the calculation of the Annual Caps under the Thomson Laboratory Agreement is based on (i) the actual amount for the Laboratory Services incurred for the first six months in 2005; (ii) the budgeted amount for the Laboratory Services in 2005; and (iii) the minimum amount of US$500,000 each year pursuant to the Thomson Laboratory Agreement.

We note that US$750,000 (equivalent to approximately HK$ 6 million) per annum has been used as the basis for the calculation of the respective Annual Caps for the Laboratory Services for each of the three financial years from 2005 to 2007. As the Thomson Laboratory Agreement will be entered into in the second half of 2005, the Annual Cap for 2005 is, therefore, approximately half of that for 2006, (i.e. US$375,000 (equivalent to approximately HK$3 million)). Since the agreement is for a term of two years from the Closing Date, which is expected to be around September 2005, the agreement will expire in or about September 2007. Therefore, the Annual Cap for 2007 is approximately three-quarters of that for 2006, i.e. US$562,500 (equivalent to approximately HK$4.4 million).

Based on our discussions with the management of TTE, we note that the actual amount incurred for the first six months in 2005 was approximately US$475,000 (equivalent to approximately HK$3.7 million), and the budgeted amount for the Laboratory Services for the whole year of 2005 is approximately US$750,000 (equivalent to approximately HK$6 million). As such, the Annual Caps for the Laboratory Services of US$750,000 (equivalent to approximately HK$6 million) per annum is in line with the actual amount incurred and the budgeted amount in 2005.

Having considered the above as a whole and given that (i) the Laboratory Services are priced on a cost basis in which TTE does not need to pay any additional margin to Thomson, (ii) the projected Laboratory Services of US$750,000 (equivalent to approximately HK$6 million) per annum is higher than the minimum amount of US$500,000 (equivalent to approximately HK$3.9 million) per annum committed under the Thomson Laboratory Agreement, and (iii) the projected amount for the Laboratory Services is in line with the actual amount incurred and budgeted amount in 2005, we are of the view that the basis in determining and the calculation of the Annual Caps under the Thomson Laboratory Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.5 *Europe After Sales Agreement*

Following the Closing, the after-sales activities under the EMEA Agency Agreement will not be transferred to TTE, therefore, Thomson Sales Europe will continue to provide after-sales services to TTE. Under the Europe After Sales Agreement, TTE will appoint Thomson Sales Europe, a wholly-owned subsidiary of Thomson, on an exclusive basis, to provide after-sales services (including consumer inquiries, warranty management, repair and rework, service contracts and E-business) to TTE with respect to TV and related products of the TTE Group sold or designated to be sold in certain European countries (collectively referred to as the "**Europe After-Sales Services**"). The agreement will be effective on the Closing Date and for a term of three years unless terminated earlier by the parties in accordance with the provisions of the agreement.

Based on our discussions with the management of TTE, we understand that the basis for the pricing of the different categories of the Europe After-Sales Services are as follows:

(i) the after-sales services of warranty management, repair and rework and service contracts performed by Thomson Sales Europe for products bearing Thomson A Brands, or Thomson B Brand in such countries will be free of charge;

(ii) for products not bearing Thomson A Brands or Thomson B Brand, the after-sales service fee will be charged by Thomson at a rate no less favourable than those offered to an independent third party;

(iii) the fee for providing the services of consumer inquiries and E-business will be charged at cost.

We note that €100,000 (equivalent to approximately HK$1 million) per annum has been used as the Annual Caps for the Europe After-Sales Services for each of the three financial years from 2005 to 2007. As the Europe After-Sales Agreement will be entered into in the second half of 2005, the Annual Cap for 2005 is, therefore, half of that for 2006, i.e. €50,000 (equivalent to approximately HK$0.5 million).

Based on our discussions with the management of TTE, the actual amount for the Europe After-Sales Services in 2004 was approximately €100,000 (equivalent to approximately HK$1 million) and the actual amount incurred for the first 6 months in 2005 was approximately €50,000 (equivalent to approximately HK$0.5 million).

Having considered the above as a whole and given that (i) the Europe After-Sales Services for products bearing Thomson A Brands or B Brand are free of charge, (ii) the Europe After-Sales Services for products not bearing Thomson A Brands or B Brand will be charged at a fee no less favourable than to an independent third party; (iii) other Europe After-Sales Services are charged on a cost basis in which TTE does not need to pay any additional margin to Thomson, and (iv) the projected amount for the Europe After-Sales Services of €100,000 (equivalent to approximately HK$1 million) per annum is in line with historical amount in 2004 and the first six months in 2005, we are of the view that the basis in determining and the calculation of the Annual Caps under the Europe After Sales Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.6 ***TTE Logistics Agreement***

Under the TTE Logistics Agreement, TTE will provide to Thomson Sales Europe logistics management services (including management and follow-up of the performance of logistics contracts, management of logistics costs savings programs and re-engineering projects initiated by Thomson) with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designated to be sold in Europe and some other countries (collectively referred to as the "**Logistics Services**").

Thomson Sales Europe will then pay to TTE a service fee for the Logistics Services (the "**Logistics Services Fee**") of €240,000 (equivalent to approximately HK$2.4 million) per year charged at cost. The agreement will be effective on the Closing Date and continue in force until 31 December 2008 unless terminated earlier by the parties thereto in accordance with the provisions therein.

Based on our discussions with the management of TTE, we understand that the Annual Cap of €250,000 (equivalent to HK$2.5 million) per year is calculated with reference to the Logistics Services Fee of €240,000 (equivalent to approximately HK$2.4 million) per year under the TTE Logistics Agreement. Pursuant to the TTE Logistics Agreement, the Logistics Services Fee of €240,000 (equivalent to approximately HK$2.4 million) will be adjusted, on a cost basis, to cover the actual costs incurred in that particular financial year. As the TTE Logistics Agreement will be entered into in the second half of 2005, the Logistics Services Fee for 2005 will be half of that for 2006, i.e.

of €125,000 (equivalent to HK$1.3 million). We also understand from the management of TTE that the Logistics Services Fee incurred in 2004 was approximately €240,000 (equivalent to approximately HK$2.4 million).

Having considered the above as a whole and given that (i) the Logistics Services Fee is charged on a cost basis, and (ii) the projected Logistics Services Fee of €250,000 (equivalent to approximately HK$2.5 million) per annum is in line with the actual amount incurred in 2004, we are of the view that the basis in determining and the calculation of the Annual Caps under the TTE Logistics Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

4.7 *TTE Styling Agreement*

Under the existing Thomson Styling Services Agreement, Thomson provides styling to TTE, and TTE shall pay to Thomson a service fee for the provision of such services at cost. After the Closing, the design and styling activities will be transferred to the TTE Group, and, therefore, Thomson will reverse its position and engage TTE as an independent contractor, on a non-exclusive basis, to provide styling services (the "**Styling Services**") to Thomson pursuant to the TTE Styling Agreement. TTE will then charge Thomson for the Styling Services at cost as well. The TTE Styling Agreement will be effective on the Closing Date and for a term of one year. The TTE Styling Agreement will give rise to the termination of the Thomson Styling Services Agreement on the Closing Date.

We have discussed with the management of TTE and note that the calculation of the Annual Caps under the TTE Styling Agreement is based on (i) the actual amount for the Styling Services in the first six months of 2005; and (ii) the budgeted amount for the Styling Services in 2005. Since the TTE Styling Agreement is only for a term of one year, the Annual Caps for both 2005 and 2006 are for approximately six months in the respective calendar years.

Based on our discussions with the management of TTE, the actual amount incurred for the first six months in 2005 was approximately US$1.05 million (equivalent to approximately HK$ 8.2 million), and the budgeted amount for the Styling Services for the second half in 2005 is approximately US$1.05 million (equivalent to approximately HK$8.2 million).

Having considered the above as a whole and given that (i) the Styling Services are priced on a cost basis, which is the same as the existing Thomson Styling Services Agreement; (ii) the projected amount for the Styling Services of US$1.09 million (equivalent to approximately HK$8.5 million) per semester is in line with the actual amount for the first half of 2005, and the budgeted amount for the second half of 2005, we are of the view that the basis in determining and the calculation of the Annual Caps under the TTE Styling Agreement are fair and reasonable, and in the interests of the Company and the Independent Shareholders as a whole.

SUMMARY ON CONTINUING CONNECTED TRANSACTIONS

Taking into account the above analysis, given that the pricing of the Continuing Connected Transactions are either (i) at cost; or (ii) at market rates no less favourable than that offered to an independent third party, and (iii) the various principal factors referred to above, we are of the view that the bases in determining the pricing and terms of the Continuing Connected Transactions and their respective Annual Caps for the three financial years ending 31 December 2007 are fair and reasonable, on normal commercial terms, and are in the interests of the Company and its Shareholders as a whole.

OVERALL RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the (i) Transfer Agreements; (ii) the Related Agreements; and (iii) the Annual Caps of the Continuing Connected Transactions are on normal commercial terms, fair and reasonable, and in the interests of the Company and its Independent Shareholders as a whole. 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 Transfer Agreements; (ii) the Related Agreements; and (iii) the Annual Caps of the Continuing Connected Transactions.

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

Harald W. A. Vogt
General Manger

Helen Ho
Head of Corporate Finance — M&A Advisory

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

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 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 were as follows:

(a) Long positions in the Shares of the Company

Directors	Capacity	No. of Shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	23,232,000	0.84%
Zhao Zhong Yao	Beneficial owner	232,000	0.008%

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

Directors	Capacity	No. of underlying shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	5,000,000	0.18%
Hu Qiu Sheng	Beneficial owner	2,500,000	0.09%
Lu Zhong Li	Beneficial owner	2,500,000	0.09%
Yan Yong	Beneficial owner	3,518,000	0.13%
Zhao Zhong Yao	Beneficial owner	3,268,000	0.12%
Albert T. da Rosa, Jr.	Beneficial owner	300,000	0.01%
Tang Guliang	Beneficial owner	300,000	0.01%
Wang Bing	Beneficial owner	300,000	0.01%
Hon Fong Ming	Beneficial owner	300,000	0.01%

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

Directors	Name of associated corporation	Capacity	No. of shares held	Approximate percentage of issued share capital in associated corporation
Li Dong Sheng	TCL Corporation	Beneficial owner	144,521,730	5.59%
Li Dong Sheng	TCL Communication Technology Holdings Limited	Beneficial owner	18,080,800	0.64%
Lu Zhong Li	TCL Corporation	Beneficial owner	23,569,661	0.91%
Hu Qiu Sheng	TCL Corporation	Beneficial owner	19,012,888	0.74%
Zhao Zhong Yao	TCL Corporation	Beneficial owner	6,434,031	0.25%
Zhao Zhong Yao	TCL Communication Technology Holdings Limited	Beneficial owner	92,800	0.003%

(d) Long positions in underlying shares of associated corporations of the Company — share options

Directors	Name of associated corporation	Capacity	No. of underlying shares held	Percentage of issued share capital of the Company
Li Dong Sheng	TCL Communication Technology Holdings Limited	Beneficial owner	5,000,000	0.18%
Hu Qiu Sheng	TCL Communication Technology Holdings Limited	Beneficial owner	2,500,000	0.09%
Lu Zhong Li	TCL Communication Technology Holdings Limited	Beneficial owner	2,500,000	0.09%
Yan Yong	TCL Communication Technology Holdings Limited	Beneficial owner	1,050,000	0.04%
Zhao Zhong Yao	TCL Communication Technology Holdings Limited	Beneficial owner	800,000	0.028%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company 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.

3. 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:

(a) Long positions in shares of the Company

Shareholders	Capacity	No. of shares held	Percentage of issued share capital of the Company
T.C.L. Industries Holdings (H.K.) Ltd.	Beneficial owner	1,512,121,289 *(Note)*	54.81%
TCL Corporation	Interest of controlled corporation	1,512,121,289 *(Note)*	54.81%

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

(b) Long positions in shares of subsidiaries of the Company

Name of subsidiary	Name of substantial shareholder	Percentage of holding
1. TTE Corporation	• Thomson S.A.	33%
2. 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%
3. 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%
4. PT. TCL Indonesia	• Junaide Sungkono	20%
5. Shenzhen TCL Industrial Institute Limited (深圳市 TCL 工業研究院有限公司)	• TCL Corporation	10%
	• TCL Communication Equipment Co. Ltd.	25%
6. TCL Electrical Appliance Sales Co., Ltd. (惠州 TCL 電器銷售 有限公司)	• TCL Corporation	49%
7. TCL Electronics (Singapore) Pte Ltd.	• Dragoncom Shenzhen Investment Ltd. (深圳市浩龍投資有限公司)	15%
8. TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL 王牌電器(無錫)有限公司)	• 無錫市電儀資產經營有限公司	30%
9. TCL Digital Technology (Beijing) Co., Ltd. (TCL 數碼科技(北京)有限公司)	• Liu Dong Yuan	29.8%
	• Cheng Fei	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.

4. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited consolidated financial statements of the Company were made up.

5. DIRECTORS' SERVICE CONTRACTS

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).

6. COMPETING INTERESTS

As at the Latest Practicable Date, the directors were not aware that any of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which falls to be disclosed under the Listing Rules.

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. QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	**Qualification**
Commerzbank	A licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorised financial institution under the SFO to conduct type 1 (dealing in securities), 4 (advising on securities), and 6 (advising on corporate finance) regulated activities as set out in Schedule 5 of the SFO

Commerzbank has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter dated 2 August 2005 and reference to its name, in the form and context in which they appear. As at the Latest Practicable Date, Commerzbank did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. 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;

(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.

10. MISCELLANEOUS

(a) Mr. Albert Thomas da Rosa, Junior, a 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 Transactions contemplated thereunder.

(b) Save as disclosed herein, 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, the IFA 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 the IFA was interested, directly or indirectly, in any assets which had since 31 December 2004 (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.

11. 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 for a period of 14 days from the date of this circular:

(a) the NA Transfer Agreement dated 12 July 2005;

(b) the European Master Transfer Agreement dated 12 July 2005;

(c) the Reimbursement Agreement to be entered into between TTE and Thomson at Closing;

(d) the Amended Angers Agreement to be entered into between Thomson and TTE at Closing;

(e) the Trademark Agreement Amendment to be entered into between Thomson and TTE at Closing;

(f) the NA Service Agreement to be entered into between TTE and Thomson at Closing;

(g) the Thomson Laboratory Agreement to be entered into between Thomson and TTE Technology, Inc. at Closing;

(h) the Europe After Sales Agreement to be entered into between TTE and Thomson Sales Europe at Closing;

(i) the TTE Logistics Agreement to be entered into between TTE and Thomson Sales Europe at Closing;

(j) the TTE Styling Agreement to be entered into between Thomson and TTE at Closing;

(k) the letter from the Independent Board Committee, the text of which is set out on page 28 of this circular;

(l) the letter from Commerzbank, the text of which is set out on pages 29 to 59 of this circular; and

(m) the written consent of the IFA as referred to in paragraph I above.

TCL 多媒體科技控股有限公司
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of TCL Multimedia Technology Holdings Limited ("Company") will be held at 11:00 a.m. on 18 August 2005 at Chatham Room, 7/F, Conrad Hotel, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions (with or without modification):

ORDINARY RESOLUTION

1. "**THAT**

   (a) the Transfer Agreements (as defined in the circular of TCL Multimedia Technology Holdings Limited ("Company") dated 2 August 2005 ("Circular")) (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) and the Related Agreements (as defined in the Circular) (a copy of which has been produced to the meeting and marked "B" and initialed by the chairman of the meeting for the purpose of identification) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, ratified and confirmed; and

   (b) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in the Transfer Agreements and/or the Related Agreements."

2. "**THAT** conditional upon the passing of resolution No. 1 set out in the notice of extraordinary general meeting of TCL Multimedia Technology Holdings Limited ("Company") dated 2 August 2005, the Annual Caps (as defined in the Company's circular dated 2 August 2005 ("Circular")) in relation to the Continuing Connected Transactions (as defined in the Circular) be and are hereby approved."

By order of the Board
Li Dong Sheng
Chairman

Hong Kong, 2 August 2005

As at the date of this notice, the Board comprises Li Dong Sheng, Zhao Zhong Yao, Lu Zhong Li, Hu Qiu Sheng and Yan Yong as executive directors, Albert Thomas da Rosa, Junior as non-executive director and Hon Fong Ming, Wang Bing and Tang Guliang as independent non-executive directors.

Notes:

(1) A member who is holder of two or more shares, and who is entitled to attend and vote at the meeting, is entitled to appoint more than one proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.

(2) In order to be valid, the form of proxy together with the power of attorney, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited 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 not less than 48 hours before the time for holding the meeting or any adjournment thereof.

(3) A form of proxy for use at the meeting is enclosed.

(4) In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Thomson and its associates (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolutions and voting on such resolutions will be conducted by way of poll.

(5) The register of members of the Company will be closed on 18 August 2005, for the purpose of determining the entitlements of the Shareholders to attend and vote at the meeting. No transfer of the Shares may be registered on that day. In order to qualify for the aforesaid entitlements, all transfers must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, by no later than 4:00 p.m. on 17 August 2005.