
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.

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1070)

**CONTINUING CONNECTED TRANSACTIONS,
ADOPTION OF NEW SHARE OPTION SCHEME
AND
ELECTION OF DIRECTORS**

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



KGI Capital Asia Limited

A letter from the Board is set out on pages 6 to 27 of this circular. A letter from the Independent Board Committee is set out on page 28 of this circular. A letter from KGI, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 49 of this circular.

A notice convening the EGM of TCL Multimedia Technology Holdings Limited to be held at Salon 2 & 3, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Admiralty, Hong Kong on 15 February 2007 at 10:00 a.m. is set out on pages 65 to 67 of this circular. Whether or not you are able to attend the EGM, 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 the EGM or any adjournment thereof should you so wish.

29 January 2007

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DEFINITIONS

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

“Adoption Date”	the date on which the New Option Scheme is adopted by virtue of an ordinary resolution of the Shareholders at the EGM
“Articles”	the existing articles of association of the Company adopted by the Shareholders by a special resolution dated 18 May 2004 and any subsequent amendment made thereto by the Shareholders by special resolution
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day, other than Saturday, on which banks in Hong Kong are generally open for business
“Colour Television Receivers”	colour television receivers that utilize colour CRTs as the display device and shall include both complete receivers as well as such receivers which are complete except for cabinets or other permanent housings, but excluding any CRTs integrated into or used in connection with such colour television receivers
“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
“Components”	being CRTs and any other components or integrated circuits used or to be used in connection with the development, production or manufacture of TV end-products by TTE which are produced and designed by the Thomson Group or incorporates a material extent of the intellectual property rights of the Thomson Group
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“CRT(s)”	cathode ray tube(s)
“Director(s)”	the director(s) of the Company

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened and held to consider the revision and/or setting of caps for the transactions under the various agreements set out in this circular and, where necessary, the transactions contemplated thereunder
“EGM Notice”	the notice convening the EGM set out on pages 65 to 67 of this circular
“Employee(s)”	any full time or part time employee(s) (including any executive and non-executive Director) of the Group
“Existing Option Holders”	holders of options granted under the Existing Option Scheme
“Existing Option Scheme”	the existing share option scheme of the Company adopted on 12 May 2003
“Grantee”	any Participant who accepts an offer in accordance with the terms of the New Option Scheme, or where the context so permits (in the case of any individual) any person who is entitled to any Option in consequence of the death of the original Grantee (including without limitation his/her legal personal representative(s))
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established for the purpose of reviewing the terms of and/or the proposed caps for certain continuing connected transactions which will be voted upon at the EGM
“Independent Shareholders”	(i) Shareholders other than TCL Corporation and its associates in the case of the TCL Preferred Supplier Agreement, the TCL Trademark License Agreement, the Master Overseas Supply Agreement, the supplemental agreement to the Master Overseas Supply Agreement, the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement; and (ii) Shareholders other than Thomson and its associates in the case of the Thomson Preferred Supplier Agreement

DEFINITIONS

“KGI”	KGI Capital Asia Limited, a corporation licensed to carry out types 1, 4 and 6 of the regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of and/or the proposed annual caps for certain continuing connected transactions set out in this circular
“Latest Practicable Date”	25 January 2007, being the latest practicable date prior to the printing of this circular for ascertaining information in this circular
“Listing Committee”	the listing sub-committee of the directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Call Centre Services Supply Agreement”	the call centre services agreement entered into between the Company and TCL Corporation on 5 January 2007
“Master Logistics Service Supply Agreement”	the master logistics service supply agreement entered into between the Company and Speed Distribution on 5 January 2007
“Master Overseas Supply Agreement”	the master overseas supply agreement dated 29 December 2004 entered into between the Company and TCL Corporation
“New Option Scheme”	the new share option scheme of the Company proposed to be adopted by the Shareholders under Ordinary Resolution No. 6 as set out in the EGM Notice
“Option(s)”	a right to subscribe for Shares to be granted under the New Option Scheme and “Options” can be construed accordingly
“Overseas Territories”	any territory or geographical area in the world other than the PRC
“Participants”	the persons or parties who or which are eligible to participate as grantee in and receive options under the New Option Scheme, as set out in paragraph 1 of Appendix II to this circular
“percentage ratios”	any percentage ratios as defined under Rule 14.07 of the Listing Rules

DEFINITIONS

“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Share(s)”	share(s) in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Speed Distribution”	Shenzhen Speed Distribution Platform Co., Ltd (深圳速必達商務服務有限公司), a company established in the PRC and a wholly owned subsidiary of TCL Corporation, which is principally engaged in the provision of logistics services in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	a company which is for the time being and from time to time a subsidiary of the Company (within the meaning of section 2 of the Companies Ordinance (Cap.32 of the Laws of Hong Kong) as modified from time to time)), whether incorporated in Hong Kong, or elsewhere and “Subsidiaries” means all of them
“Substantial Shareholder(s)”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“TCL Corporation”	TCL Corporation (TCL集團股份有限公司), a joint stock company established under the laws of the PRC, the ultimate controlling shareholder of the Company
“TCL Corporation Group”	TCL Corporation and its subsidiaries (excluding members comprising the Group)
“TCL Preferred Supplier Agreement”	the TCL preferred supplier agreement dated 30 July 2004 entered into between TCL Corporation and TTE

DEFINITIONS

“TCL Products”	any goods including electronic or electrical goods or appliances (including but not limited to home electrical appliances traditionally designed in light colour, including but not limited to refrigerators, washing machines and air conditioners, communication equipment, electrical accessories and their components) manufactured, produced or otherwise sold or supplied by any member of the TCL Corporation Group
“TCL Trademark License Agreement”	the TCL trademark license agreement dated 30 July 2004 entered into between TCL Corporation and TTE
“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
“Thomson Group”	Thomson and its subsidiaries
“Thomson Preferred Supplier Agreement”	the Thomson preferred supplier agreement dated 30 July 2004 entered into between Thomson and TTE
“Trading Day”	a day on which the Stock Exchange is open for the trading of securities
“TTE”	TTE Corporation, a wholly owned subsidiary of the Company
“TTE Group”	TTE and its subsidiaries
“2004 Circular”	the Company’s circular dated 31 May 2004
“2005 January Circular”	the Company’s circular dated 19 January 2005
“%”	per cent.

LETTER FROM THE BOARD



TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1070)

Executive Directors:

Li Dongsheng (*Chairman*)
Lu Zhongli
Shi Wanwen
Wang Kangping
Yuan Bing

Non-executive Directors:

Albert Thomas da Rosa, Junior
Alastair Kenneth Ruskin Campbell
Didier Trutt

Independent non-executive Directors:

Tang Guliang
Wang Bing
Robert Maarten Westerhof

Registered office:

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

*Head office and Principal place of
Business in Hong Kong:*

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

29 January 2007

*To the Shareholders, and for information only,
the Existing Option Holders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS, ADOPTION OF NEW SHARE OPTION SCHEME AND ELECTION OF DIRECTORS

INTRODUCTION

Reference is made to the announcement of the Company dated 5 January 2007. The Group has been conducting certain continuing connected transactions with the Thomson Group and the TCL Corporation Group in its ordinary and usual course of business. As set out in the 2004 Circular, the caps for the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement and the TCL Preferred Supplier Agreement expired on 31 December 2006. As set out in the 2005 January Circular, the caps for the transactions under

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the Master Overseas Supply Agreement will expire on 31 December 2007. Accordingly, the Company would like to take this opportunity to revise and/or set new caps for the above continuing connected transactions.

In addition, the Company has entered into the Master Call Centre Services Supply Agreement and the Master Logistics Service Supply Agreement with certain members of the TCL Corporation Group. Details of the proposed transactions are set out below in this circular.

Besides, the Existing Option Scheme expired on 11 November 2006, and therefore, an ordinary resolution will be proposed to approve the adoption of the New Option Scheme at the EGM. As at the Latest Practicable Date, the Company had not adopted any option scheme other than the Existing Option Scheme.

The Board has appointed Mr. Shi Wanwen and Mr. Yuan Bing as executive Directors effective from 30 June 2006 and 12 October 2006 respectively and Mr. Robert Maarten Westerhof as an independent non-executive Director effective from 8 September 2006. The Board proposes to elect Mr. Shi, Mr. Yuan and Mr. Westerhof at the EGM.

The purpose of this circular is to provide you with further information regarding the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009, details of the principal terms of the New Option Scheme and the details of the Directors to be elected and to seek your approval of the ordinary resolutions set out in the EGM Notice on pages 65 to 67 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders regarding the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009 is set out on page 28 of this circular. The letter from KGI to the Independent Board Committee and the Independent Shareholders containing its advice regarding the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009 is set out on pages 29 to 49 of this circular.

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CONTINUING CONNECTED TRANSACTIONS

Existing continuing connected transactions

Based on the proposed new caps for the transactions under the following agreements, the revision and/or setting of such proposed new caps are subject to the independent shareholders' approval requirement.

Thomson Preferred Supplier Agreement

Date: 30 July 2004

Parties: TTE – Purchaser
Thomson – Supplier

Major terms: The Thomson Preferred Supplier Agreement was approved by the independent Shareholders on 2 July 2004. The major terms of the Thomson Preferred Supplier Agreement have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below.

Pursuant to the Thomson Preferred Supplier Agreement, TTE has appointed Thomson as one of the only two preferred suppliers for the Components and has given priority to Thomson and its affiliates for the supply of the Components.

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

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

Term: From the date of the agreement up to the earliest of:

- (a) the later of (i) 30 July 2007; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; and (iii) the date on which the Thomson Group holds less than 14.66% of the total issued share capital of the Company (as at the Latest Practicable Date, the Thomson Group held approximately 19.32% of the issued share capital of the Company);

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- (b) termination by either party due to the other party's liquidation or material breach;
- (c) 15 years from the date of the agreement (i.e. 30 July 2019); and
- (d) the date on which the Thomson Group holds less than 13.25% of the total issued share capital of the Company.

The term of the Thomson Preferred Supplier Agreement exceeds three years. In accordance with Rule 14A.35 of the Listing Rules, the then independent financial adviser of the Company opined in its letter dated 31 May 2004 (a copy of which was set out in the 2004 Circular) that it was business practice for the Company to enter into the Thomson Preferred Supplier Agreement with a term exceeding three years.

TCL Preferred Supplier Agreement

Date: 30 July 2004

Parties: TTE – Purchaser
TCL Corporation – Supplier

Major terms: The TCL Preferred Supplier Agreement was approved by the independent Shareholders on 2 July 2004. The major terms of the TCL Preferred Supplier Agreement have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below.

Pursuant to the TCL Preferred Supplier Agreement, TTE has appointed TCL Corporation as one of the only two preferred suppliers for the Components and has given priority to TCL Corporation and its affiliates for the supply of the Components (other than CRTs as the TCL Corporation Group does not supply CRTs). The major terms of the TCL Preferred Supplier Agreement are the same as those of the Thomson Preferred Supplier Agreement as summarized above.

Term: From the date of the agreement up to the earliest of:

- (a) the later of (i) 30 July 2007; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; (iii) the date on which TCL Corporation holds less than 19.37% of the total issued share capital of the Company (as at the Latest Practicable Date, the TCL Corporation Group held approximately 38.74% of the issued share capital of the Company);
- (b) 15 years from the date of the agreement (i.e. 30 July 2019);

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- (c) termination by either party due to the other party's liquidation or material breach; and
- (d) the date on which TCL Corporation and its affiliates hold less than 13.25% of the total issued share capital of the Company.

The term of the TCL Preferred Supplier Agreement exceeds three years. In accordance with Rule 14A.35 of the Listing Rules, the then independent financial adviser of the Company opined in its letter dated 31 May 2004 (a copy of which was set out in the 2004 Circular) that it was business practice for the Company to enter into the TCL Preferred Supplier Agreement with a term exceeding three years.

Master Overseas Supply Agreement

Date: The original Master Overseas Supply Agreement was entered into on 29 December 2004 and subsequently amended by a supplemental agreement dated 5 January 2007 to extend the expiry date of the agreement to 31 December 2009 (subject to approval of the Independent Shareholders in respect of the proposed caps for the three years ending 31 December 2009).

Parties: The Company – Purchaser
TCL Corporation – Supplier

Major terms: The Master Overseas Supply Agreement was approved by the independent Shareholders on 22 February 2005. The major terms of the Master Overseas Supply Agreement have been summarized in the Company's announcement dated 29 December 2004 and the 2005 January Circular, and are repeated below.

Pursuant to the Master Overseas Supply Agreement, the Group may purchase any TCL Products from the TCL Corporation Group in any Overseas Territories. The TCL Corporation Group shall sell the relevant TCL Products to the Group if the terms (including the prices) of such purchase offered by the Group to the TCL Corporation Group are not less favourable to the Group than those on which the relevant member of the TCL Corporation Group has sold or supplied such TCL Products to any independent customers in any Overseas Territories.

All the transactions made pursuant to the Master Overseas Supply Agreement will be supported by written contracts to be entered into between the Group and the TCL Corporation Group, and the terms of which will have to be determined in accordance with the provisions of the Master Overseas Supply Agreement after arm's length negotiations between the Group and the TCL Corporation Group and on normal commercial terms.

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Term: From 22 February 2005 to 21 February 2008 (in accordance with the existing Master Overseas Supply Agreement), and to be extended to 31 December 2009 under the supplemental agreement dated 5 January 2007 (subject to approval of the Independent Shareholders in respect of the proposed caps for the three years ending 31 December 2009).

TCL Trademark License Agreement

Date: 30 July 2004

Parties: TCL Corporation – Licensor
TTE – Licensee

Major terms: The TCL Trademark License Agreement was approved by the independent Shareholders on 2 July 2004. The major terms of the TCL Trademark License Agreement have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below.

Pursuant to the TCL Trademark License Agreement, TCL Corporation and its subsidiaries have granted to the TTE Group an exclusive (subject to certain limited exceptions which are related to some existing obligation or business of TCL Corporation), non sub-licensable and non-transferable license to use certain of its registered trademarks for the manufacture and sale of television products including: (i) "TCL" in Asia-Pacific; and (ii) "TCL" in rest of the world outside Asia-Pacific and "Rowa" in the PRC.

TTE Group shall pay to TCL Corporation royalties which shall be calculated based on the net sales of the television products of the TTE Group bearing any of the licensed trademarks under this agreement and the applicable royalty rates. Under the TCL Trademark License Agreement, the royalty rates range from 0% to 1.5% depending on the trademarks, territories and performance of the TTE Group.

TCL Corporation will continue to conduct general brand promotion and marketing in respect of those licensed trademarks under the TCL Trademark License Agreement in its ordinary course of business. Under the TCL Trademark License Agreement, the TTE Group shall reimburse TCL Corporation such relevant portion of the cost and expenses incurred by TCL Corporation for the general brand advertising costs incurred by TCL Corporation or any other entities controlled by TCL Corporation or under the common control of TCL Corporation during the term of the agreement. The minimum amount of such reimbursement shall be 0.5% of the aggregate annual net sales of the television products of the TTE Group using certain trademarks of TCL Corporation in the relevant territories for the previous fiscal year.

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Term: From 30 July 2004 to 30 July 2024 unless earlier terminated in accordance with the terms of the agreement.

The term of the TCL Trademark License Agreement exceeds three years. In accordance with Rule 14A.35 of the Listing Rules, the then independent financial adviser of the Company opined in its letter dated 31 May 2004 (a copy of which was set out in the 2004 Circular) that it was business practice for the Company to enter into the TCL Trademark License Agreement with a term exceeding three years.

New continuing connected transactions

Under Rule 14A.25 of the Listing Rules, the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are aggregated for the purposes of the Listing Rules. Based on the proposed caps for the aggregated transactions under the two agreements, such aggregated transactions and the proposed caps are subject to the independent shareholders' approval requirement.

Master Logistics Service Supply Agreement

Date: 5 January 2007

Parties: the Company – client
Speed Distribution – service provider

Major terms: Pursuant to the Master Logistics Service Supply Agreement, the Group may from time to time request the provision of the logistics services by Speed Distribution at terms of no less favourable than (i) those offered by Speed Distribution to other independent clients and/or (ii) those offered to the Group by other independent service providers. Speed Distribution shall provide such logistics services to the Group if Speed Distribution has the necessary resources available.

On the other hand, if Speed Distribution can offer logistics services to the Group at terms of no less favourable than (i) those offered by Speed Distribution to other independent clients and/or (ii) those offered to the Group by other independent service providers, the Company shall procure its subsidiaries to actively consider using the services offered by Speed Distribution subject to the relevant requirements under the Listing Rules, including the caps set for the transaction from time to time. For the avoidance of doubt, the Group is under no obligation to use any logistics services offered by Speed Distribution under this agreement.

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If there are no comparable terms offered to other independent customers by Speed Distribution and there are no comparable terms offered to the Group by other independent service providers, the terms of the services to be provided by Speed Distribution to the Group shall then be determined after arm's length negotiations between the parties and shall be on normal commercial terms.

Logistics services which may be provided by Speed Distribution under the Master Logistics Service Supply Agreement include, among others,:

- delivery and transfer of raw materials, components, finished goods, etc. between the premises of the Group's suppliers, distributors, customers, the Group's warehouses and distribution centres;
- warehouse management; and
- other services as agreed between the parties to the agreement from time to time.

If the logistics services provided by Speed Distribution to the Group under this agreement involve the work of a third party service provider engaged by Speed Distribution, Speed Distribution shall only charge the Group the actual cost incurred by Speed Distribution in this regard. The Company shall also reimburse Speed Distribution for the cost and expenses incurred by Speed Distribution in respect of any service improvement work at the request of or agreed by the Group.

Specific agreements shall be entered into between the Group and Speed Distribution pursuant to the terms of this Master Logistics Service Supply Agreement if the Group decides to use the logistics services provided by Speed Distribution.

Condition precedent and term:

The agreement shall become effective on the date on which the Master Logistics Service Supply Agreement is approved by the Independent Shareholders in accordance with the relevant requirements of the Listing Rules.

The agreement shall have a term of three years from its effective date.

The parties to the agreement may mutually agree (in writing) to renew the agreement for one or more 3-year period after the above expiry date subject to the Company complying with the relevant requirements of the Listing Rules.

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Master Call Centre Services Supply Agreement

Date: 5 January 2007

Parties: the Company – client
TCL Corporation – service provider

Major terms: Pursuant to the Master Call Centre Services Supply Agreement, the TCL Corporation Group has agreed to provide the call centre services to the Group. The Company shall pay the TCL Corporation Group fees to be calculated based on the actual cost structure of the TCL Corporation Group in connection with the provision of the call centre services.

Under the Master Call Centre Services Supply Agreement, the TCL Corporation Group shall operate a nationwide customer call centre in the PRC to support the marketing and after-sales service of various products of the Group and provide the Group with analysed customer information obtained through the operation of the customer call centre.

Condition precedent and term: The agreement shall become effective on the date on which the Master Call Centre Services Supply Agreement is approved by the Independent Shareholders in accordance with the relevant requirements of the Listing Rules.

The agreement shall have a term of three years from its effective date.

The parties to the agreement may mutually agree (in writing) to renew the agreement for one or more 3-year period after the above expiry date subject to the Company complying with the relevant requirements of the Listing Rules.

LETTER FROM THE BOARD

Historical values and annual caps

The following table sets out the respective historical amounts of the continuing connected transactions (other than the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement which are new transactions of the Company) as described above for the two years ended 31 December 2005 and the nine months ended 30 September 2006 and the respective annual caps for the three years ended 31 December 2006:

Continuing connected transactions		For the year ended 31 December 2004 <i>HK\$'000</i>	For the year ended 31 December 2005 <i>HK\$'000</i>	For the
				9 months ended 30 September 2006 (in respect of the actual transaction values (unaudited)) and for the year ended 31 December 2006 (in respect of the cap amounts) <i>HK\$'000</i>
Thomson Preferred Supplier Agreement	Actual	1,738,305	2,077,850	95,903
	Existing annual cap	5,625,000	11,572,000	13,429,000
TCL Preferred Supplier Agreement	Actual	266,191	572,365	327,377
	Existing annual cap	1,595,000	5,543,000	10,104,000

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		For the 9 months ended 30 September 2006 (in respect of the actual transaction values (unaudited)) and for the year ended 31 December 2006 (in respect of the cap amounts) HK\$'000					
Continuing connected transactions		For the year ended 31 December 2004 HK\$'000		For the year ended 31 December 2005 HK\$'000			
Master Overseas Supply Agreement	Actual	N/A		108,217		24,239	
	Existing annual cap	N/A		435,000		567,000	
TCL Trademark License Agreement (Note 1)	Actual	aggregate royalty:	nil	aggregate royalty:	nil	aggregate royalty:	nil
		aggregate branding fee reimbursement:	nil	aggregate branding fee reimbursement:	nil	aggregate branding fee reimbursement:	33,474
	Existing annual cap	aggregate royalty:	nil	aggregate royalty:	nil	aggregate royalty:	147,000
		aggregate branding fee reimbursement:	56,000	aggregate branding fee reimbursement:	121,000	aggregate branding fee reimbursement:	138,000
		Total:	56,000	Total:	121,000	Total:	285,000

Note 1: Under the TCL Trademark License Agreement, no license royalty was payable by the TTE Group to TCL Corporation during the period from 30 July 2004 to 29 July 2006. In addition, TCL Corporation has waived the obligations of the TTE Group to reimburse any branding fees for the two years ended 31 December 2005 and not yet rendered bill for the branding fee reimbursement for the nine months ended 30 September 2006. The amount stated above represents an estimate made by the Company in accordance with the terms of the agreement subject to any possible waiver granted by TCL Corporation.

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The following table sets out the respective annual caps or proposed annual caps of the continuing connected transactions under the agreements as described above for the three financial years ending 31 December 2009:

Type of continuing connected transactions	For the year ending 31 December 2007 <i>HK\$'000</i>	For the year ending 31 December 2008 <i>HK\$'000</i>	For the year ending 31 December 2009 <i>HK\$'000</i>
Thomson Preferred Supplier Agreement	167,511	190,962	208,149
TCL Preferred Supplier Agreement	676,522	917,658	1,251,058
Master Overseas Supply Agreement	93,503	120,272	148,330
TCL Trademark License Agreement	aggregate 193,447 royalty:	aggregate 237,947 royalty:	aggregate 250,108 royalty:
	aggregate 77,737 branding fee reimbursement:	aggregate 95,570 branding fee reimbursement:	aggregate 100,462 branding fee reimbursement:
	Total: 271,184	Total: 333,517	Total: 350,570
Master Logistics Service Supply Agreement and Master Call Centre Services Supply Agreement	429,064	514,964	618,716

The major bases and assumptions for determining the caps for the various continuing connected transactions are set out below.

Proposed caps for the Thomson Preferred Supplier Agreement

The caps for the transaction under the Thomson Preferred Supplier Agreement were determined based on the estimated purchase amounts which in turn were determined based on the purchase amount in 2006 with an estimated growth in the size of the transaction set with reference to certain market estimates in respect of the growth in the worldwide television shipments in 2007, 2008 and 2009 and the increasing trend in the cost of components as a result of the trend of moving from analog CRT televisions to digital non-CRT televisions like LCD televisions and plasma televisions.

Proposed caps for the TCL Preferred Supplier Agreement

The caps for the transaction under the TCL Preferred Supplier Agreement were determined based on the internal projection of the Company in respect of the requirement of the TTE Group in terms of raw materials and components for the manufacture of television products which in turn was determined based on the purchase amount in 2006 with an estimated growth for the next three years set with reference to, among other factors, the trend of switching from CRT

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televisions to non-CRT televisions, and from small-sized televisions to large-sized televisions, the manufacturing of which requires more expensive raw materials and components and the expected appreciation of Renminbi against Hong Kong dollars.

Proposed caps for the Master Overseas Supply Agreement

Prior to the acquisition by the TCL Corporation Group of the computer manufacturing business from the Group in September 2006 (which, together with certain other transactions, constituted a discloseable and connected transaction for the Company as announced on 23 June 2006 and approved by the independent Shareholders on 7 August 2006), purchases of computers for the Group's overseas distribution business were intra-group transactions. It is since the completion of the acquisition of the computer business by the TCL Corporation Group from the Group, the purchases of computers from the TCL Corporation Group for the overseas distribution business have become connected transactions under the Master Overseas Supply Agreement.

The caps for the transaction under the Master Overseas Supply Agreement were determined based on the internal projection of the Company in respect of the possible distribution sales of TCL Products purchased under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), comprising mainly air conditioners and computers, in the Overseas Territories and thus the potential demand for purchases under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it). Such internal projection for determining the proposed cap amounts was in turn estimated by the Company based on the purchase amounts of air conditioners and computers of the Group in 2006 in relation to its overseas distribution business with an estimated growth set with reference to the estimated potential growth of the overseas computer distribution business (which is a relatively young business and thus expected to experience higher growth) and the proposed expansion of the Group's overseas distribution network (which will help stimulate further growth in sales and thus the related purchases under this agreement).

Proposed caps for the TCL Trademark License Agreement

The caps for the transaction under the TCL Trademark License Agreement represent the product of the agreed highest royalty rate under the agreement times the projected sales of the TTE Group's products bearing TCL's trademarks licensed to the TTE Group under the TCL Trademark License Agreement which in turn were estimated based on the sales amount in 2006 with an expected growth for the next three years set with reference to certain market estimates of the expected growth in the sales of televisions in the PRC and other regions around the world.

Proposed caps for the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement

The caps for the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement were determined by the Company based on the sum of the estimated transaction values of the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement for the three years ending 31 December 2009.

LETTER FROM THE BOARD

The estimated transaction values of the transactions under the Master Logistics Service Supply Agreement were determined based on the historical cost and expenses incurred by the Group in respect of the logistics services in the PRC in 2006 and the projected sales quantity in the next three years at an annual average growth rate of around 15% determined with reference to, among other factors, historical growth rates in sales quantity, the increasing quantity of products sold in the PRC, expected higher average transportation costs for digital non-CRT televisions than CRT televisions and the increasing fuel costs. For the nine months ended 30 September 2006, the relevant unaudited logistics cost and expenses incurred by the Group amounted to approximately HK\$189.1 million.

Currently, the Group supports its customer call centre needs internally. For the nine months ended 30 September, the relevant unaudited call centre expenses incurred by the Group amounted to approximately HK\$12.7 million. The estimated transaction values of the transactions under the Master Call Centre Services Supply Agreement were determined based on the agreed preliminary hourly rates under the agreement times the estimated hours of calls in respect of the Group's products which may be handled by the TCL Corporation Group for the three financial years ending 31 December 2009 which were in turn determined based on the historical amount of customer calls handled by the Group itself in 2006 adjusted with the effect of the new business model agreed between the Company and the TCL Corporation Group in respect of the PRC nationwide call centre services for the Group's customers (which is expected to increase the hours of outgoing customer calls expected to be handled by the call centre of the TCL Corporation Group) with an estimated growth for the three years ending 31 December 2009 set with reference to certain market estimates in respect of the growth in the television shipments in the PRC.

Reasons for and benefits of the continuing connected transactions

Having considered the principal terms of the transactions as stated above and the reasons for and benefits of the transactions as stated below, the Directors (including the independent non-executive Directors) are of the view that the transactions under the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Thomson Preferred Supplier Agreement, the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are on normal commercial terms, carried out in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Thomson Preferred Supplier Agreement

In 2004, the Group combined its television business with the television business of the Thomson Group. As part of the combination, the Group also consolidated and acquired certain television manufacturing assets from the TCL Corporation Group. A number of agreements have been entered into with the TCL Corporation Group and the Thomson Group in connection with the business combination with a view to ensuring a smooth operation of the combined TTE Group. Such agreements include, among others, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Thomson Preferred Supplier Agreement.

LETTER FROM THE BOARD

After the aforesaid combination, the TCL Corporation Group continues to hold, among other things, certain trademarks which are used by the TTE Group for the marketing of its televisions. Such trademarks form an important part of the business of the TTE Group. The TCL Trademark License Agreement will allow the TTE Group to secure the use of such trademarks over a reasonable period of time at reasonable rates.

The TCL Corporation Group and the Thomson Group are manufacturers of certain parts and components for television manufacturing. Pursuant to the TCL Preferred Supplier Agreement and the Thomson Preferred Supplier Agreement, TTE shall only purchase the Components from the TCL Corporation Group or the Thomson Group on the condition that the Components are of comparable product quality, specifications and reliability and on terms taken as a whole as competitive as those offered by other independent suppliers. Moreover, the TCL Corporation Group and the Thomson Group shall grant priority to TTE for orders placed by TTE for Components over the orders placed by other customers without any additional cost. The Directors consider that the TCL Preferred Supplier Agreement and the Thomson Preferred Supplier Agreement will allow the TTE Group to secure a reliable source of supply (both in terms of quantity and quality) for essential components for the manufacturing of television products.

The Master Overseas Supply Agreement

Under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the Group may source any TCL Products from the TCL Corporation Group on normal commercial terms with a view to distributing such TCL Products for profits. The Master Overseas Supply Agreement (as amended by the supplemental agreement to it) is distinct and separate from the TCL Preferred Supplier Agreement under which the TTE Group purchases raw materials and components from the TCL Corporation Group for production of the TTE Group's television products, the principal business of the Group. The Directors believe that the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) will provide the Group with an additional source of revenue and margin by capitalizing upon its established distribution network of the Group of its television products in the Overseas Territories without incurring significant additional overheads.

The Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement

Currently, the Group has been supporting its needs for logistics services and call centre services in the PRC internally. With a view to further streamlining the cost structure of the Group, the Company considers it beneficial to the Group for it to sub-contract the logistics services and call centre services to specialized service units. The Company further believes the specialized service units may be able to provide more efficient logistics services and call centre services than the present internal support units of the Group as the TCL Corporation Group will be able to enjoy a better economies of scale when they also provide services to other customers. Given the close relationship between the Group and TCL Corporation, the controlling Shareholder, the Group will be placed in a better position to monitor the services to be provided under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement than by other outside service providers.

LETTER FROM THE BOARD

Under the Master Logistics Service Supply Agreement, Speed Distribution shall provide the logistics services at the request of the Group at terms which are no less favourable than those offered by Speed Distribution to independent customers and also are no less favourable than those offered to the Group by other independent service providers. Under the Master Call Centre Services Supply Agreement, the TCL Corporation Group shall provide the call centre services to the Group based on the actual cost structure of the TCL Corporation Group.

Information of the parties

The Company is an investment holding company. The Company, through its subsidiaries (including the TTE Group), associated companies and jointly controlled entities, is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television set and audio-visual products.

The TCL Corporation Group is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, telecommunications, information technology and electrical products.

Thomson provides technology, systems and services to help its media and 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.

Shareholders' approval

The Company is an approximately 38.74% owned subsidiary of TCL Corporation and is approximately 19.32% owned by Thomson. TCL Corporation is the controlling Shareholder and Thomson is the Substantial Shareholder. Both TCL Corporation and Thomson are therefore connected persons of the Company for the purposes of the Listing Rules. Accordingly, the transactions under the abovementioned agreements constitute or will constitute continuing connected transactions for the Company under the Listing Rules.

Based on the proposed caps for the three years ending 31 December 2009, some of the relevant percentage ratios in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement exceed 2.5%. As all the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement having previously been approved by the Independent Shareholders and no material amendments have been made to the terms of such transactions after the transactions have been approved by the Independent Shareholders, such transactions are not required to be re-approved by the Independent Shareholders this time. However, the proposed revision and setting of the annual caps for the above transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) for the three years ending 31 December 2009 will be subject to approval of the Independent Shareholders.

LETTER FROM THE BOARD

The aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009 are also subject to the approval of the Independent Shareholders.

Thomson and its associates will abstain from voting in respect of the resolution to be put forward at the EGM in respect of the setting of the annual caps for the transactions under the Thomson Preferred Supplier Agreement for the three years ending 31 December 2009.

TCL Corporation and its associates will abstain from voting in respect of the resolutions to be put forward at the EGM in respect of the revision and/or setting of the annual caps for the transactions under the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) for the three years ending 31 December 2009 and the terms of the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed annual caps for the three years ending 31 December 2009.

The Independent Board Committee has been established to advise the Independent Shareholders on the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009. The Company has appointed KGI as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

PROPOSED ADOPTION OF NEW OPTION SCHEME

At the EGM, an ordinary resolution will be proposed to approve and adopt the New Option Scheme and to give the Directors the power to implement and administer the New Option Scheme with effect from the date of passing of the resolution. A summary of the principal terms of the New Option Scheme is set out in Appendix II to this circular.

LETTER FROM THE BOARD

Current status of the Existing Option Scheme

The particulars of the options subject to/granted under the Existing Option Scheme as at the Latest Practicable Date are set out below:

(a)	number of Shares subject to options granted:	180,920,000
(b)	number of Shares issued pursuant to options exercised:	28,000,000
(c)	number of Shares subject to options lapsed:	17,500,000
(d)	number of Shares subject to options cancelled:	Nil
(e)	number of Shares issuable pursuant to exercise of outstanding options:	135,420,000

(details of which are set out in the table below)

Holder of options outstanding	Number of Shares subject to options outstanding	Exercise price per Share for Shares subject to options outstanding	Exercisable period for options outstanding
1,181	135,420,000	HK\$1.40	one-third of such share options are exercisable after 28/02/2006; a further one-third is exercisable after 30/11/2006; and the remaining one-third is exercisable after 31/08/2007, all up to 30/11/2008

Expiry of the Existing Option Scheme

The Existing Option Scheme expired on 11 November 2006. In this connection, no further options can be granted under the Existing Option Scheme but the options which have been granted during the life of the Existing Option Scheme shall continue to be exercisable in accordance with their terms of issue.

LETTER FROM THE BOARD

New Option Scheme

Reason for adopting the New Option Scheme

The Directors consider that in order to recognize the significant contributions of the Participants to the growth of the Group and/or to motivate and encourage the Participants to continue and improve their performance and efficiency, it is important for the Group to provide them with opportunities to obtain a shareholding interest in the Company and to reward them for keeping contributing to the Group's long-term success and prosperity.

The Directors believe that with no requirement of performance targets, no minimum period for which an Option must be held by the Participants before it can be exercised and a fair mechanism for determining the exercise price of the Options, the Directors can have ample discretion in prescribing terms for grants of Options specific to the circumstance aimed to achieve the goals of the New Option Scheme which is to provide the best incentive to Participants for continuing support of the Group. In this connection, the Board proposes to recommend to the Shareholders at the EGM to approve the adoption of the New Option Scheme.

Conditions

- (i) the Shareholders passing an ordinary resolution to approve and adopt the New Option Scheme at the EGM; and
- (ii) the Listing Committee granting approval for the listing of and permission to deal in such number of Shares which may fall to be issued upon exercise of the Options which may be granted under the New Option Scheme as set out in paragraph 6.1 in Appendix II to this circular.

Value of Option

The Directors consider it inappropriate to value any Options which may be granted under the New Option Scheme, as a number of variables which are crucial for the valuation (such as the possibility of lapses or cancellations of Options granted, cessation of the Grantee as a Participant not foreseeable nor controllable by the Directors at this stage) cannot be determined evidently at this stage. Such variables also include the exercise price of the Options and the conditions, if any, that an Option is subject to. Accordingly, any valuation of the Options based on a large number of speculative assumptions would not be meaningful and may be misleading to the Shareholders.

Present status of the New Option Scheme

Application has been made to the Listing Committee for the approval of the granting of the listing of and permission to deal in the Shares which may fall to be issued upon exercise of the Options which may be granted under the New Option Scheme as set out in paragraph 6.1 in Appendix II to this circular.

LETTER FROM THE BOARD

The Company will comply with the requirements of the Listing Rules in granting Options and issuing Shares pursuant to the New Option Scheme. Shareholders should refer to the summarized terms of the New Option Scheme set out in Appendix II in this circular.

As at the Latest Practicable Date, no Options had been granted or agreed to be granted under the New Option Scheme.

ELECTION OF DIRECTORS

The Board appointed Mr. Shi Wanwen and Mr. Yuan Bing as executive Directors effective from 30 June 2006 and 12 October 2006 respectively and Mr. Robert Maarten Westerhof as an independent non-executive Director effective from 8 September 2006. Pursuant to code provision A.4.2 of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules, all Directors appointed to fill a causal vacancy or as an addition to the Board shall be subject to election by the Shareholders at the first general meeting after their appointment. Thus, Mr. Shi should have been subject to election at the extraordinary general meeting of the Company held on 7 August 2006 while Mr. Westerhof and Mr. Yuan should be subject to election at the EGM. Accordingly, the Company proposes the election of Mr. Shi Wanwen and Mr. Yuan Bing as executive Directors and Mr. Robert Maarten Westerhof as independent non-executive Director by Shareholders at the EGM.

The particulars of each of Mr. Shi, Mr. Yuan and Mr. Westerhof are set out in the Appendix III to this circular.

EGM

The Company will convene the EGM at Salon 2 & 3, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Admiralty, Hong Kong on 15 February 2007 at 10:00 a.m. at which ordinary resolutions will be proposed for the purpose of considering and, if thought fit, approving the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the supplemental agreement to the Master Overseas Supply Agreement, the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009, the adoption of the New Option Scheme and the proposed election of certain Directors. The EGM Notice is set out on pages 65 to 67 of this circular. The voting on the resolutions in respect of the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the supplemental agreement to the Master overseas Supply Agreement, and the Master Logistics Service Supply Agreement, the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009 will be conducted by way of poll in accordance with the requirements of the Listing Rules.

LETTER FROM THE BOARD

A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the EGM, 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 15 February 2007, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on 14 February 2007.

PROCEDURE FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Article 80, 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.

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 proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental

LETTER FROM THE BOARD

agreement to it), the supplemental agreement to the Master Overseas Supply Agreement, and the Master Logistics Service Supply Agreement, the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009; (ii) the letter from KGI set out on pages 29 to 49 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 of and the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement; (iii) the terms of the New Option Scheme summarized in Appendix II to this circular; (iv) particulars of those Directors subject to election set out in Appendix III to this circular; and (v) the EGM Notice set out on pages 65 to 67 of this circular.

The Independent Board Committee, having taken into account the advice of KGI, the independent financial adviser, considers that the terms of and the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement (as amended by the supplemental agreement to the Master Overseas Supply Agreement), the supplemental agreement to the Master Overseas Supply Agreement, the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are fair and reasonable so far as the Company and the Shareholders are concerned; and the relevant underlying transactions are entered into on normal commercial terms, in the ordinary and usual course of business of the Group and 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 resolutions to be proposed at the EGM in respect of the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the supplemental agreement to the Master Overseas Supply Agreement, and the Master Logistics Service Supply Agreement, the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009. The independent non-executive Directors also consider that the grant of the Option(s) pursuant to the terms of the New Option Scheme is in the best interests of the Company and its Shareholders and accordingly recommend that you should vote in favour of the resolution regarding the adoption of the New Option Scheme to be proposed at the EGM.

The Board considers that the resolutions proposed in the EGM Notice are in the best interests of the Company and the Shareholders and therefore recommend you to vote in favour of all the relevant resolutions to be proposed at the EGM.

Yours faithfully,
By order of the Board
Li Dongsheng
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1070)

29 January 2007

To the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 29 January 2007 (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 proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the supplemental agreement to the Master Overseas Supply Agreement and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009, details of which are set out in the letter from the Board in the Circular.

Having taken into account of the advice of KGI, the independent financial adviser, we consider that the terms of and the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement (as amended by the supplemental agreement to the Master Overseas Supply Agreement), the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are fair and reasonable so far as the Company and the Shareholders are concerned; and that the relevant underlying transactions are entered into on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM in respect of the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), the supplemental agreement to the Master Overseas Supply Agreement, and the Master Logistics Service Supply Agreement, the Master Call Centre Services Supply Agreement and their proposed caps for the three years ending 31 December 2009.

Yours faithfully,

Tang Guliang Wang Bing Robert Maarten Westerhof
Independent Board Committee

LETTER FROM KGI

Set out below is the text of the letter of advice from KGI Capital Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this circular.



KGI Capital Asia Limited

27/F ICBC Tower,
Citibank Plaza
3 Garden Road
Central Hong Kong

Tel: 2878 6888
Fax: 2970 0080

29 January 2007

TCL Multimedia Technology Holdings Limited

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps, particulars of which are set out in the "Letter from the Board" (the "Letter") contained in the circular to the Shareholders dated 29 January 2007 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

The Group has been conducting certain continuing connected transactions with the Thomson Group and the TCL Corporation Group in its ordinary and usual course of business. As set out in the 2004 Circular, the caps for the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement and the TCL Preferred Supplier Agreement expired on 31 December 2006. As set out in the 2005 January Circular, the caps for

LETTER FROM KGI

the transactions under the Master Overseas Supply Agreement will expire on 31 December 2007. In view of the above, the Company proposes to revise and/or set caps for the above continuing connected transactions.

In addition, the Company has entered into the Master Call Centre Services Supply Agreement with TCL Corporation on 5 January 2007 and the Master Logistics Service Supply Agreement with Speed Distribution on 5 January 2007.

Based on the relevant annual cap amounts, the proposal to revise and set annual caps for the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it), and the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps are subject to the Independent Shareholders' approval under the Listing Rules.

TCL Corporation and its associates will abstain from voting in respect of the resolutions to be put forward at the EGM in respect of the revision and/or setting of the annual caps for the transactions under the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) for the three years ending 31 December 2009, and the terms of the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps for the three years ending 31 December 2009.

Thomson and its associates will abstain from voting in respect of the resolution to be put forward at the EGM in respect of the setting of the annual caps for the transactions under the Thomson Preferred Supplier Agreement for the three years ending 31 December 2009.

THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising Mr. Tang Guliang, Mr. Wang Bing and Mr. Robert Maarten Westerhof, being all the independent non-executive Directors, has been established to advise the Independent Shareholders on the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) and the terms of the Master Call Centre Services Supply Agreement and the Master Logistics Service Supply Agreement and their relevant proposed annual caps.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether or not the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM KGI

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed to us by the Company, its Directors and management of the Company. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company, its Directors and management of the Company. We have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We have also assumed that all statement of intention of the Company, its Directors and management of the Company as set out in the Circular will be implemented. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company, its Directors and management of the Company, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and shall continue to be true, complete and accurate at the date of the EGM.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Company and its Directors and management of the Company in connection with the transactions and discussed with the management of the Company so as to assess the fairness and reasonableness on the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps. Relevant information and documents included, among other things, the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement and its relevant supplemental agreement, the Master Call Centre Services Supply Agreement, the Master Logistics Service Supply Agreement, the annual report of the Company for the year ended 31 December 2005 and the interim report of the Company for the six months ended 30 June 2006. We believe that we have reviewed sufficient information to enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion regarding the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) and the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps. We have not, however, carried out any independent verification of the information and representations provided to us by the management of the Company and the Directors nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company or TTE or TCL Corporation or Thomson or their respective subsidiaries or associated companies.

LETTER FROM KGI

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address the Company's own decision to proceed with the entering into the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement nor the Master Overseas Supply Agreement and its supplemental agreement, the Master Logistics Service Supply Agreement nor the Master Call Centre Services Supply Agreement. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have taken the following principal factors and reasons into consideration:

1. Background of the existing continuing connected transactions

The Company is an investment holding company. The Company, through its subsidiaries (including the TTE Group), associated companies and jointly controlled entities, is principally engaged in the manufacture and sale of a wide range of electronic consumer products including television sets and audio-visual products.

The TCL Corporation Group is a major PRC conglomerate that designs, develops, manufactures and markets a wide range of the electronic, telecommunications, information technology and electrical products.

Thomson provides technology, systems and services to help its media and 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.

According to the Letter, the Group combined its television business with the television business of the Thomson Group in 2004. As part of the combination, the Group also consolidated and acquired certain television manufacturing assets from the TCL Corporation Group. A number of agreements had been entered into with the TCL Corporation Group and the Thomson Group in connection with the business combination with a view to ensuring the smooth operation of the combined TTE Group. Such agreements include, among others, the TCL Preferred Supplier Agreement, the Thomson Preferred Supplier Agreement and the TCL Trademark License Agreement.

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We have noted that the terms and the relevant existing caps for the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement and the TCL Preferred Supplier Agreement were duly approved by the independent shareholders of the Company in an extraordinary general meeting of the Company held on 2 July 2004. In addition, the terms and the relevant existing caps for the transactions under the Master Overseas Supply Agreement were duly approved by the independent shareholders of the Company in an extraordinary general meeting of the Company held on 22 February 2005.

2. Reasons for and the terms of the existing continuing connected transactions

Thomson Preferred Supplier Agreement

We understand from the Directors that the major terms of the Thomson Preferred Supplier Agreement are the same as those have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below:

- Pursuant to the Thomson Preferred Supplier Agreement, TTE has appointed Thomson as one of the only two preferred suppliers for the Components and has given priority to Thomson and its affiliates for the supply of the Components.
- Provided that (i) TTE has certified such Components regarding their quality specifications, terms of supply and other attributes of supply and (ii) the Components are of comparable product quality, specifications and reliability as offered by other suppliers and are offered at terms taken as a whole as competitive as those offered by other suppliers, TTE shall use reasonable efforts to make Thomson the most significant supplier in terms of volume for the Components.
- Thomson shall designate TTE as its preferred customer. In case of production capacity constraint on Thomson's part, Thomson shall grant priority to TTE for orders placed by TTE for the Components over orders of other customers of Thomson provided such grant of priority will not cause Thomson to breach its existing obligations with other customers.
- From the date of the agreement up to the earliest of:
 - (a) the later of (i) 30 July 2007; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; and (iii) the date on which the Thomson Group holds less than 14.66% of the total issued share capital of the Company (as at the Latest Practicable Date, the Thomson Group held approximately 19.32% of the issued share capital of the Company);

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- (b) termination by either party due to the other party's liquidation or material breach;
- (c) 15 years from the date of the agreement (i.e. 30 July 2019); and
- (d) the date on which the Thomson Group holds less than 13.25% of the total issued share capital of the Company.

We note that the term of the Thomson Preferred Supplier Agreement exceeds three years which was duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004.

Pursuant to the Thomson Preferred Supplier Agreement, we note that TTE shall only purchase the Components from the Thomson Group on the condition that the Components are of comparable product quality, specifications and reliability and on terms taken as a whole as competitive as those offered by other independent suppliers. Moreover, the Thomson Group shall grant priority to TTE for orders placed by TTE for Components over the orders placed by other customers without any additional cost. The Directors confirmed that there is no comparables in relation to the unit selling prices of the Components offered by the Thomson Group as TTE only purchased the required Components from the Thomson Group. Save for there is no comparables for the fairness in relation to the pricing, in order to assess the fairness and reasonableness of the terms for the transactions contemplated under the Thomson Preferred Supplier Agreement, we have reviewed the Thomson Preferred Supplier Agreement and note that (i) TTE shall carry out its own sourcing activities in accordance with its normal sourcing procedure; (ii) TTE and the Thomson Group agree and acknowledge that the terms and conditions of each component contract entered into by request shall be consistent with the relevant market and industry practices; and (iii) in the event that the price and/or the terms of supply of the Components of comparable product quality offered by other independent third party suppliers of TTE are more competitive, the Company shall have a right to request the Thomson Group to modify the price and/or the terms of supply of the Components accordingly. Under this mechanism, TTE shall be able to secure a stable supply of the Components at a competitive market price.

In addition, we understand from the Directors that the Thomson Group is one of the key suppliers in the world in relation to televisions and the components of televisions, so it is beneficial for TTE, being treated as a preferred customer of the Thomson Group, to continue to secure the supply of the Components from the Thomson Group.

Having considered the above as a whole, as well as the abovementioned terms were duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004, we are of the view that the terms of the Thomson Preferred Supplier Agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

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TCL Preferred Supplier Agreement

We understand from the Directors that the major terms of the TCL Preferred Supplier Agreement are the same as those have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below:

- Pursuant to the TCL Preferred Supplier Agreement, TTE has appointed TCL Corporation as one of the only two preferred suppliers for the Components and has given priority to TCL Corporation and its affiliates for the supply of the Components (other than CRTs as the TCL Corporation Group does not supply CRTs).
- The major terms of the TCL Preferred Supplier Agreement are the same as those of the Thomson Preferred Supplier Agreement as summarized above.
- From the date of the agreement up to the earliest of:
 - (a) the later of (i) 30 July 2007; (ii) such date as may be agreed by the parties upon its renewal after the expiry of the three-year term; and (iii) the date on which TCL Corporation holds less than 19.37% of the total issued share capital of the Company (as at the Latest Practicable Date, the TCL Corporation Group holds approximately 38.74% of the issued share capital of the Company);
 - (b) 15 years from the date of the agreement (i.e. 30 July 2019);
 - (c) termination by either party due to the other party's liquidation or material breach; and
 - (d) the date on which TCL Corporation and its affiliates hold less than 13.25% of the total issued share capital of the Company.

We note that the term of the TCL Preferred Supplier Agreement exceeds three years which was duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004.

Pursuant to the TCL Preferred Supplier Agreement, we note that TTE shall only purchase the Components from the TCL Corporation Group on the condition that the Components (other than CRTs as the TCL Corporation Group does not supply CRTs) are of comparable product quality, specifications and reliability and on terms taken as a whole as competitive as those offered by other independent suppliers. Moreover, the TCL Corporation Group shall grant priority to TTE for orders placed by TTE for components over the orders placed by other customers without any additional cost. In order to assess the fairness and reasonableness of the terms for the transactions contemplated under the TCL Preferred Supplier Agreement, we have reviewed and compared, on a random sample basis, the unit selling prices of the Components offered by the TCL Corporation Group to

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TTE against those unit selling prices of similar products offered by independent third party suppliers of TTE during the year 2006. We note that the unit selling prices offered by the TCL Corporation to TTE were materially the same as those unit selling prices offered by independent third party suppliers of TTE.

In addition, we understand from the Directors that it is beneficial for TTE, being treated as a preferred customer of the TCL Corporation Group, to continue to secure the supply of the Components (other than CRTs) from the TCL Corporation Group. We have reviewed the TCL Preferred Supplier Agreement and note that (i) TTE shall carry out its own sourcing activities in accordance with its normal sourcing procedure; (ii) TTE and TCL Corporation agree and acknowledge that the terms and conditions of each component contract entered into by request shall be consistent with the relevant market and industry practices; and (iii) in the event that the price and/or the terms of supply of the components of comparable product quality offered by other independent third party suppliers of TTE are more competitive, the Company shall have a right to request TCL Corporation to modify the price and/or the terms of supply of the components accordingly. Under this mechanism, TTE shall be able to secure a stable supply of the Components (other than CRTs) at a competitive market price.

Having considered the above as a whole, as well as the abovementioned terms were duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004, we are of the view that the terms of the TCL Preferred Supplier Agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

Master Overseas Supply Agreement

We understand from the Directors that the original major terms of the Master Overseas Supply Agreement, which was entered into on 29 December 2004 and subsequently amended by a supplemental agreement dated 5 January 2007 to extend the expiry date of the agreement to 31 December 2009 (subject to the approval of the Independent Shareholders), are materially the same as those have been summarized in the Company's announcement dated 29 December 2004 and the 2005 January Circular, and are repeated below:

- Pursuant to the Master Overseas Supply Agreement, the Group may purchase any TCL Products from the TCL Corporation Group in any Overseas Territories. The TCL Corporation Group shall sell the relevant TCL Products to the Group if the terms (including the prices) of such purchase offered by the Group to the TCL Corporation Group are not less favorable to the Group than those on which the relevant member of the TCL Corporation Group has sold or supplied such TCL Products to any independent customers in any Overseas Territories.

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- All the transactions made pursuant to the Master Overseas Supply Agreement will be supported by written contracts to be entered into between the Group and the TCL Corporation Group, and the terms of which will have to be determined in accordance with the provisions of the Master Overseas Supply Agreement after arm's length negotiations between the Group and the TCL Corporation Group and on normal commercial terms.

We have reviewed the Master Overseas Supply Agreement and its supplemental agreement and note that, pursuant to the Master Overseas Supply Agreement, the price of the TCL Products sold or supplied by the TCL Corporation Group to the Group shall be in any event not more than the price of the TCL Products on which such TCL Products are sold or supplied by the TCL Corporation Group to any independent third parties in the Overseas Territories. In addition, we also note that it is the purpose of the Group to sell the TCL Products which it has acquired from the TCL Corporation Group to any parties for profits. Therefore, we concur with the Directors' views that the Master Overseas Supply Agreement and its supplemental agreement will provide the Group with an additional source of revenue and margin by capitalizing upon its established distribution network of the Group of its television products in the Overseas Territories without incurring significant additional overheads.

Given the above and: (i) the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) will be based on no less favourable terms than those offered to independent third parties; (ii) the terms of each transactions made pursuant to the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) will be determined after arm's length negotiations between the Group and the TCL Corporation Group and on normal commercial terms; and (iii) the terms of the Master Overseas Supply Agreement were duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 22 February 2005, we are of the view that the terms of the Master Overseas Supply Agreement and the supplemental agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

TCL Trademark License Agreement

We understand from the Directors that the major terms of the TCL Trademark License Agreement are the same as those have been summarized in the Company's announcement dated 1 June 2004 and the 2004 Circular, and are repeated below:

- Pursuant to the TCL Trademark License Agreement, TCL Corporation and its subsidiaries have granted to the TTE Group an exclusive (subject to certain limited exceptions which are related to some existing obligation or business of TCL Corporation), non sub-licensable and non-transferable license to use certain of its registered trademarks for the manufacture and sale of television products including: (i) "TCL" in Asia-Pacific; and (ii) "TCL" in rest of the world outside Asia-Pacific and "Rowa" in the PRC.

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- The TTE Group shall pay to TCL Corporation royalties which shall be calculated based on the net sales of the television products of the TTE Group bearing any of the licensed trademarks under this agreement and the applicable royalty rates. Under the TCL Trademark License Agreement, the royalty rates range from 0% to 1.5% depending on the trademarks, territories and performance of the TTE Group.
- TCL Corporation will continue to conduct general brand promotion and marketing in respect of those licensed trademarks under the TCL Trademark License Agreement in its ordinary course of business. Under the TCL Trademark License Agreement, the TTE Group shall reimburse TCL Corporation such relevant portion of the cost and expenses incurred by TCL Corporation for the general brand advertising costs incurred by TCL Corporation or any other entities controlled by TCL Corporation or under the common control of TCL Corporation during the term of the agreement. The minimum amount of such reimbursement shall be 0.5% of the aggregate annual net sales of the television products of the TTE Group using certain trademarks of TCL Corporation in the relevant territories for the previous fiscal year.
- The period of the TCL Trademark License Agreement is from 30 July 2004 to 30 July 2024 unless earlier terminated in accordance with the terms of the TCL Trademark License Agreement. We note that the term of the TCL Trademark License Agreement exceeds three years which was duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004.

We note that (i) under the TCL Trademark License Agreement, there was no license royalty payable by the TTE Group to TCL Corporation during the period from 30 July 2004 to 29 July 2006; and (ii) TCL Corporation had waived the obligations of the TTE Group to reimburse any branding fees for the two years ended 31 December 2005.

In addition, we understand from the Directors that, after the combination of the Group's television business with the television business of the Thomson Group, the TCL Corporation Group continue to hold, among other things, certain trademarks which are used by the TTE Group for the marketing of its televisions, and such trademarks form an important part of the business of the TTE Group. The TCL Trademark License Agreement will allow the TTE Group to secure the use of such trademarks exclusively over a period of time at reasonable rates as stated in the agreement.

Having considered the above as a whole, as well as the abovementioned terms were duly approved by the independent shareholders of the Company in the extraordinary general meeting of the Company held on 2 July 2004, we are of the view that the terms of the TCL Trademark License Agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

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3. Reasons for and the terms of the new continuing connected transactions

Under Rule 14A.25 of the Listing Rules, the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are aggregated for the purposes of the Listing Rules. Based on the proposed annual caps for the aggregated transactions under the two agreements, such aggregated transactions and the proposed annual caps are subject to the independent shareholders' approval requirement.

Master Logistics Service Supply Agreement

The Company entered into the Master Logistics Service Supply Agreement with Speed Distribution on 5 January 2007. The major terms pursuant to the Master Logistics Service Supply Agreement are set out below:

- Pursuant to the Master Logistics Service Supply Agreement, the Group may from time to time request Speed Distribution to provide the logistics services at terms of no less favourable than (i) those offered by Speed Distribution to other independent clients and/or (ii) those offered to the Group by other independent service providers. Speed Distribution shall provide such logistics services to the Group if Speed Distribution has the necessary resources available.

On the other hand, if Speed Distribution can offer the logistics services to the Group at terms of no less favourable than (i) those offered by Speed Distribution to other independent clients and/or (ii) those offered to the Group by other independent service providers, the Company shall procure its subsidiaries to actively consider using the services offered by Speed Distribution subject to the relevant requirements under the Listing Rules, including the caps set for the transactions from time to time. For the avoidance of doubt, the Group is under no obligation to use any logistics services offered by Speed Distribution under this agreement.

If there are no comparable terms offered to other independent customers by Speed Distribution and there are no comparable terms offered to the Group by other independent service providers, the terms of the services to be provided by Speed Distribution to the Group shall then be determined after arm's length negotiations between the parties and shall be on normal commercial terms.

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- Logistics services which may be provided by Speed Distribution under the Master Logistics Service Supply Agreement include, among others:
 - delivery and transfer of raw materials, components, finished goods, etc. between the premises of the Group's suppliers, distributors, customers, the Group's warehouses and distribution centres;
 - warehouse management; and
 - other services as agreed between the parties to the agreement from time to time.

If the logistics services provided by Speed Distribution to the Group under this agreement involve the work of a third party service provider engaged by Speed Distribution, Speed Distribution shall only charge the Group the actual cost incurred by Speed Distribution in this regard. The Company shall also reimburse Speed Distribution for the cost and expenses incurred by Speed Distribution in respect of any service improvement work at the request of or agreed by the Group.

- Specific agreements shall be entered into between the Group and Speed Distribution pursuant to the terms of the Master Logistics Service Supply Agreement if the Group decides to use the logistics services provided by Speed Distribution.

The Directors are of the views that the transactions under the Master Logistics Service Supply Agreement are on normal commercial terms and are carried out in the ordinary and usual course of business of the Group.

Master Call Centre Services Supply Agreement

The Company entered into the Master Call Centre Services Supply Agreement with TCL Corporation on 5 January 2007. The major terms pursuant to the Master Call Centre Services Supply Agreement are set out below:

- Pursuant to the Master Call Centre Services Supply Agreement, the TCL Corporation Group has agreed to provide the call centre services to the Group. The Company shall pay the TCL Corporation Group fees to be calculated based on the actual cost structure of the TCL Corporation in connection with the provision of the call centre services.
- Under the Master Call Centre Services Supply Agreement, the TCL Corporation Group shall operate a nationwide customer call centre in the PRC to support the marketing and after-sales service of various products of the Group and provide the Group with analysed customer information obtained through the operation of the customer call centre.

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The Directors are of the views that the transactions under the Master Call Centre Services Supply Agreement are on normal commercial terms and are carried out in the ordinary and usual course of business of the Group.

Currently, the Group has been supporting its needs for logistics services and call centre in the PRC internally. With a view to further streamlining the cost structure of the Group, the Company considers it beneficial to the Group for it to sub-contract the logistics services and call centre services to specialized service units. The Company further believes the specialized service units may be able to provide more efficient logistics services and call centre services than the present internal support units of the Group as the TCL Corporation Group will be able to enjoy a better economies of scale when they also provide services to other customers. In addition, given the close relationship between the Group and the TCL Corporation Group, the Group will be placed in a better position to monitor the services to be provided under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement than by other outside service providers so as to secure the quality of services provided to the Group.

Pursuant to the Master Logistics Service Supply Agreement, we note that Speed Distribution shall provide the logistics services at the request of the Group at terms which are no less favourable than those offered by Speed Distribution to independent customers and/or also are no less favourable than those offered to the Group by other independent service providers. According to the public information provided by the internet website (www.peihuo.cn), we note that the pricing offered by Speed Distribution in relation to the logistics services is much lower than the pricing offered by independent service providers in the market, and it is also materially the same as the cost currently incurred by the existing internal logistic servicing unit of the Group.

Pursuant to the Master Call Centre Services Supply Agreement, we note that the TCL Corporation Group shall provide the call centre services to the Group only based on the actual cost structure of the TCL Corporation Group. Furthermore, we understand from the Directors that a fee quoted for providing similar call centre services from an independent third party is less favourable than the currently agreed preliminary chargeable rates in relation to the call centre services to be provided by the TCL Corporation Group.

Having considered the above as a whole, we are of the view that the terms of the aggregated transactions contemplated under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are fair and reasonable so far as the interests of the Company and the Independent Shareholders as a whole are concerned.

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4. The proposed annual caps

The respective historical amounts of the continuing connected transactions (other than the Master Call Centre Services Supply Agreement and the Master Logistics Service Supply Agreement which are new transactions of the Company) as described above for the two years ended 31 December 2005 and the nine months ended 30 September 2006 and the respective existing annual caps for the three years ended 31 December 2006 (if applicable) are set out in the section headed "Historical values and annual caps" of the Letter.

The following table sets out the respective proposed annual caps of the continuing connected transactions under the Thomson Preferred Supplier Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement, the TCL Trademark License Agreement and the aggregated proposed annual caps of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement for the three years ending 31 December 2009:

Type of continuing connected transactions	For the year ending 31 December 2007 <i>HK\$'000</i>	For the year ending 31 December 2008 <i>HK\$'000</i>	For the year ending 31 December 2009 <i>HK\$'000</i>
Thomson Preferred Supplier Agreement	167,511	190,962	208,149
TCL Preferred Supplier Agreement	676,522	917,658	1,251,058
Master Overseas Supply Agreement	93,503	120,272	148,330
TCL Trademark License Agreement	aggregate royalty: 193,447	aggregate royalty: 237,947	aggregate royalty: 250,108
	aggregate branding fee reimbursement: 77,737	aggregate branding fee reimbursement: 95,570	aggregate branding fee reimbursement: 100,462
	Total: 271,184	Total: 333,517	Total: 350,570
Master Logistics Service Supply Agreement and Master Call Centre Services Supply Agreement	429,064	514,964	618,716

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The major bases and assumptions for determining the annual caps for the various continuing connected transactions are set out below. In order to consider the fairness and reasonableness of the respective proposed annual caps of the continuing connected transactions, we have discussed with the management of the Company and we have reviewed, among others, the historical amounts with breakdowns provided by the management of the Company in relation to the continuing connected transactions under the Thomson Preferred Supplier Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement and the TCL Trademark License Agreement for the nine months ended 30 September 2006, the internal projections in relation to the continuing connected transactions under the Thomson Preferred Supplier Agreement, the TCL Preferred Supplier Agreement, the Master Overseas Supply Agreement and the TCL Trademark License Agreement for the three years ending 31 December 2009, and the market statistics and information in relation to televisions business published by iSuppli Corporation, a worldwide research company (“iSuppli”). In addition, we also take into consideration of the following factors:

Proposed annual caps for the Thomson Preferred Supplier Agreement

The annual caps for the transaction under the Thomson Preferred Supplier Agreement were determined based on the estimated purchase amounts which in turn were determined based on the purchase amount in 2006 with an estimated growth in the size of the transaction with reference to certain market estimates in respect of the growth in the worldwide television shipments in 2007, 2008 and 2009 and the increasing trend in the cost of components as a result of the trend of moving from analog CRT televisions to digital non-CRT televisions like LCD televisions and plasma televisions.

We note that, based on the annualized purchase amount under the Thomson Preferred Supplier Agreement in 2006, the percentage increase of the proposed annual caps under the Thomson Preferred Supplier Agreement is approximately 31%, 14% and 9% for the three years ending 31 December 2009 respectively.

According to the Directors, the Group will eventually switch its televisions business from analog CRT televisions to digital non-CRT televisions like LCD televisions and plasma televisions and the worldwide analog CRT televisions shipments in term of units sold are expected to continue to decrease with an compounded annual decreasing rate from years 2006 to 2010 of approximately 13%, based on the statistics published by iSuppli. According to the statistics published by iSuppli, the estimated growth rates in relation to the worldwide LCD televisions shipments in term of units sold are approximately 57%, 35% and 28% for the three years ending 31 December 2009 respectively while the estimated growth rates in relation to the worldwide plasma televisions shipments in term of units sold are approximately 27%, 26% and 15% for the three years ending 31 December 2009 respectively. Having considered that the percentage increase of the proposed annual caps under the Thomson Preferred Supplier Agreement for the three years ending 31 December 2009 are in line with the estimated growth of market forecasts, we are of the view that the proposed annual caps under the Thomson Preferred Supplier Agreement are justifiable.

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Proposed annual caps for the TCL Preferred Supplier Agreement

The annual caps for the transaction under the TCL Preferred Supplier Agreement were determined based on the internal projection of the Company in respect of the requirement of the TTE Group in terms of raw materials and components for the manufacture of television products which in turn was determined based on the purchase amount in 2006 with an estimated growth for the next three years set with reference to, among other factors, the trend of switching from CRT televisions to non-CRT televisions, and from small-sized televisions to large-sized televisions, the manufacturing of which requires more expensive raw materials and components and the expected appreciation of Renminbi against Hong Kong dollars.

We note that, based on the projected purchase amount under the TCL Preferred Supplier Agreement in 2006 after taking into account of the historical purchase amount for the nine months ended 30 September 2006 and the internal projection for the demand of raw materials and components for the next three months of 2006 provided by the management of the Group, the percentage increase of the proposed annual caps under the TCL Preferred Supplier Agreement is approximately 40%, 36% and 36% for the three years ending 31 December 2009 respectively.

We understand from the Directors that it may be beneficial to the Group by switching its television business from CRT televisions to non-CRT televisions like LCD televisions and plasma televisions in view of the market trend as reflected by the estimated reduction of CRT televisions shipments in term of units sold for the coming five years as described above. According to the statistics published by iSuppli, the estimated growth rates in relation to the worldwide LCD televisions shipments in term of units sold are approximately 57%, 35% and 28% for the three years ending 31 December 2009 respectively while the estimated growth rates in relation to the worldwide plasma televisions shipments in term of units sold are approximately 27%, 26% and 15% for the three years ending 31 December 2009 respectively. Particularly, regarding the PRC market, the estimated growth rates in relation to the LCD televisions shipments in term of units sold are approximately 114%, 54% and 27% for the three years ending 31 December 2009 respectively while the estimated growth rates in relation to the plasma televisions shipments in term of units sold are approximately 34%, 27% and 25% for the three years ending 31 December 2009 respectively. After taking into account of recent appreciation of the exchange rate of Renminbi against HK\$, the percentage increase of the proposed annual caps under the TCL Preferred Supplier Agreement for the three years ending 31 December 2009 are in line with the estimated growth of market forecasts, we are of the view that the proposed annual caps under the TCL Preferred Supplier Agreement are justifiable.

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Proposed annual caps for the Master Overseas Supply Agreement

The annual caps for the transaction under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) were determined based on the internal projection of the Company in respect of the possible distribution sales of the products purchased under the Master Overseas Supply Agreement, comprising mainly air-conditioners and computers, in the Overseas Territories and thus the potential demand for the purchases under the Master Overseas Supply Agreement. Such internal projection for determining the proposed annual cap amounts was in turn estimated by the Company based on the purchase amounts of air conditioners and computers of the Group in 2006 in relation to its overseas distribution business with an estimated growth set with reference to the estimated potential growth of the overseas computer distribution business (which is a relatively young business of the Group which is expected to experience higher growth) and the proposed expansion of the Group's overseas distribution network (which will help stimulate further growth in sales and thus the related purchases under the Master Overseas Supply Agreement).

We note that, based on the projected purchase amount under the Master Overseas Supply Agreement in 2006 by taking into account of the historical purchase amount for the nine months ended 30 September 2006 and the internal projection for the purchase for the next three months of 2006 provided by the management of the Company, the percentage increase of the proposed annual caps under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) is approximately 44%, 29% and 23% for the three years ending 31 December 2009 respectively.

We have discussed with the Directors and note that the percentage increase of 44% by comparing with the projected purchase amount in 2006 and the proposed annual caps for the year ending 31 December 2007 will be mainly attributable to the increase in relation to the computers business of the Group in 2007. According to the Directors, before September 2006, the purchases in relation to the computers business were made through a subsidiary of the Company, therefore, there was no transaction made in relation to the computers business between the Group and the TCL Corporation Group under the Master Overseas Supply Agreement. In September 2006, such subsidiary of the Company which operated the computers business was acquired by the TCL Corporation Group, then the subsequent purchases in relation to the computer business between the Group and the TCL Corporation Group constituted continuing connected transactions under the Listing Rules. We have been provided with and have reviewed the estimated purchase in relation to the computers business for the three months from October 2006 to December 2006. We understand from the Directors that the projected increase in the purchase amount under the Master Overseas Supply Agreement in relation to computers business in 2007 when comparing with 2006 is mainly because the amount in 2006 only represented the actual purchase amounts in September 2006 and the estimated purchase amounts for the three months from October 2006 to December 2006, while the proposed annual caps for the year ending 31 December 2007 in relation to the computers business represents a full year figure of the relevant operations. According to the data published by International Data Centre ("IDC") on 23 January 2006, the growth of the worldwide computers market

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is expected to be approximately 10.6% in 2006 and IDC predicted that the compounded annual growth rate of the worldwide computers market will be approximately 10.7% for the years from 2004 to 2009.

Regarding the air-conditioners business, we have reviewed a breakdown of historical purchase amount under the Master Overseas Supply Agreement in relation to the air-conditioners business for the two years ended 31 December 2005 and for the nine months ended 30 September 2006, and the business plan in respect of the air-conditioners business, we note that the historical purchase amount under the Master Overseas Supply Agreement in relation to the air-conditioners business for the nine months ended 30 September 2006 represented approximately 99.7% of the historical purchase amount for the whole year of 2005, in which particularly the annualized percentage increase in the India market and the Thailand market was approximately 214% and 254% respectively. We understand from the Directors that, besides the existing markets of the Group, the overseas business of the Group in relation to air-conditioners business will further grow due to the proposed expansion of the Group's overseas distribution network in new markets, like South Africa and Middle East countries.

In view of the above, we consider that the proposed annual caps for the three years ending 31 December 2009 under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) are justifiable.

Proposed annual caps for the TCL Trademark License Agreement

The annual caps for the transaction under the TCL Trademark License Agreement represent the product of the agreed highest royalty rate under the agreement times the projected sales of the TTE Group's products bearing TCL's trademarks licensed to the TTE Group under the TCL Trademark License Agreement which were in turn estimated based on the sales amount in 2006 with an expected growth for the next three years set with reference to certain market estimates of the expected growth in the sales of televisions in the PRC and other regions around the world.

We note that there was no royalty paid by the TTE Group to TCL Corporation for the two years ended 31 December 2005 and for the six months ended 30 June 2006. We further note that there was no branding fee reimbursement paid by the TTE to TCL Corporation for the two years ended 31 December 2005. According to the Letter, the branding reimbursement fee for the nine months ended 30 September 2006 of approximately HK\$33.5 million is estimated by the Directors in accordance with the terms of the TCL Trademark License Agreement subject to any possible waiver granted by TCL Corporation. Pursuant to the TCL Trademark License Agreement, no royalty shall be due or payable in respect of the sales of any products bearing TCL's trademarks prior to the second anniversary of the agreement date, 30 July 2004. In view of the above and the estimated branding fee reimbursement for the nine months ended 30 September 2006 as mentioned in the Letter, the projected amount under the TCL Trademark License Agreement in 2006 is not significant. In view of the fact that the projected amount under the TCL Trademark License Agreement in 2006 is not significant, the percentage increase of the

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proposed annual caps under the TCL Trademark License Agreement in 2007 when compared with the projected amount in 2006 is not meaningful. The annual cap in 2008 will increase by approximately 23%, when compared with that of 2007 and will increase by approximately 5% in 2009, when compared with that of 2008.

We have reviewed the projections taking into account the estimated increasing trend of the worldwide televisions industry, particularly LCD televisions and plasma televisions, as forecasted by iSuppli, we consider that the percentage increases of the proposed annual caps under the TCL Trademark License Agreement for the three years ending 31 December 2009 are in line with the estimated growth of market forecasts, and hence are justifiable.

Proposed aggregated annual caps for the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement

The annual caps for the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement were determined by the Company based on the sum of the estimated transaction values of the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement for the three years ending 31 December 2009.

The estimated transaction values of the transactions under the Master Logistics Service Supply Agreement were determined based on the historical costs and expenses incurred by the Group in respect of the logistics services in the PRC in 2006 and the projected growth of annual sales quantity in the next three years at around 15% which is determined with reference to, among other factors, historical growth rates in sales quantity, the increasing quantity of products sold in the PRC, higher average transportation cost for digital non-CRT televisions than CRT televisions, and the increasing fuel costs. According to the Letter, for the nine months ended 30 September 2006, the relevant unaudited logistics cost and expenses incurred by the Group amounted to approximately HK\$189.1 million.

Currently, the Group supports its customer call centre needs internally. According to the Letter, for the nine months ended 30 September 2006, the relevant unaudited call centre expenses incurred by the Group amounted to approximately HK\$12.7 million. The estimated transaction values of the transactions under the Master Call Centre Services Supply Agreement were determined based on the agreed preliminary hourly rates under the agreement times the estimated hours of calls in respect of the Group's products handled by the TCL Corporation Group for the three financial years ending 31 December 2009 which were in turn determined based on the historical amount of customer calls handled by the Group itself in 2006 adjusted with the effect of the new business model agreed between the Company and the TCL Corporation Group in respect of the PRC nationwide call centre services for the Group's customers (which is expected to increase the hours of outgoing customer calls expected to be handled by the call centre of the TCL Corporation Group) with an estimated growth for the three years ending 31 December 2009 set with reference to certain market estimates in respect of the growth in the television shipments in the PRC.

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In order to consider the fairness and reasonableness of the proposed aggregated annual caps for the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement, we take into consideration of the following aspects:

- (i) We note that the percentage increases of the proposed annual caps of the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are approximately 20% for each of 2008 (when compared with that of 2007) and 2009 (when compared with that of 2008) respectively. According to the annual report of the Group for the year ended 31 December 2005, the turnover of the Group for the year ended 31 December 2005 had increased by approximately 35% when compared with that of the Group for the year ended 31 December 2004. In view of the historical growth of the turnover of the Group in 2005 and the estimated increasing trend of the worldwide televisions industry, particularly LCD televisions and plasma televisions, as forecasted by iSuppli, we consider the percentage increase of the proposed annual caps of the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement for the three years ending 31 December 2009 are in line with the estimated growth of market forecasts;
- (ii) We have reviewed the internal projection of the Company and a breakdown in relation to the estimated transportation costs to be incurred in relation to the logistics services to be provided by the TCL Corporation Group. We understand from the Directors that, regarding the Master Logistics Service Supply Agreement, the average transportation costs for digital non-CRT televisions are higher than those for analog CRT televisions. Therefore, due to the eventual switching of the Group's television business from analog CRT televisions to digital non-CRT televisions, like LCD televisions and plasma televisions in the three years ending 31 December 2009, the transportation costs to be incurred are expected to be increased further; and
- (iii) We have reviewed the internal projection of the Company and a breakdown in relation to the estimated costs to be incurred in relation to the call centre services to be provided by the TCL Corporation Group. We understand from the Directors that the preliminary charging rates agreed under the Master Call Centre Services Supply Agreement were determined by the Company based on the total costs (after taking into account of the historical costs incurred) in relation to the incoming customer calls and the outgoing customer calls handled by the call centre of the Group. According to the Directors, there will be a substantial increase of outgoing customer calls that will be handled by the TCL Corporation Group due to the restructuring of the business models in relation to the call centre services agreed between the Company and the TCL Corporation Group with the aim of enhancing the overall working efficiency and customer satisfaction in respect of the call centre services offered to the end users.

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In view of the above, we consider the proposed annual caps for the aggregated transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are justifiable.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) are fair and reasonable so far as the interests of the Independent Shareholders are concerned, and we also consider that the terms of the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group and their relevant proposed annual caps are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to approve (i) the proposed annual caps in respect of the transactions under the Thomson Preferred Supplier Agreement, the TCL Trademark License Agreement, the TCL Preferred Supplier Agreement and the Master Overseas Supply Agreement (as amended by the supplemental agreement to it); and (ii) the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement and their relevant proposed annual caps, which will be proposed at the EGM.

Yours faithfully,

For and on behalf of

KGI Capital Asia Limited

Laurent Leung

Director

Jimmy Chan

Senior Vice President

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

Directors	Capacity	No. of Shares held	Percentage of issued share capital of the Company
Li Dongsheng	Beneficial owner	21,988,000	0.56%
Wang Kangping	Beneficial owner	100,000	0.003%

(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 Dongsheng	Beneficial owner	5,000,000	0.13%
Lu Zhongli	Beneficial owner	2,500,000	0.06%
Shi Wanwen	Beneficial owner	2,600,000	0.07%
Wang Kangping	Beneficial owner	1,400,000	0.04%
Albert Thomas da Rosa, Junior	Beneficial owner	300,000	0.008%
Tang Guliang	Beneficial owner	300,000	0.008%
Wang Bing	Beneficial owner	300,000	0.008%
Yuan Bing	Beneficial owner	330,000	0.008%

(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 Dongsheng	TCL Corporation	Beneficial owner	121,953,000	4.72%
Li Dongsheng	TCL Communication Technology Holdings Limited	Beneficial owner	77,788,800	1.31%
Lu Zhongli	TCL Corporation	Beneficial owner	19,888,987	0.77%
Shi Wanwen	TCL Corporation	Beneficial owner	2,283,465	0.09%
Wang Kangping	TCL Communication Technology Holdings Limited	Beneficial owner	80,000	0.001%
Yuan Bing	TCL Communication Technology Holdings Limited	Beneficial owner	2,116,000	0.04%

(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 in associated corporation
Li Dongsheng	TCL Communication Technology Holdings Limited	Beneficial owner	15,454,550	0.26%
Lu Zhongli	TCL Communication Technology Holdings Limited	Beneficial owner	3,727,275	0.06%
Wang Kangping	TCL Communication Technology Holdings Limited	Beneficial owner	3,027,274	0.05%
Shi Wanwen	TCL Communication Technology Holdings Limited	Beneficial owner	654,546	0.01%
Yuan Bing	TCL Communication Technology Holdings Limited	Beneficial owner	1,436,364	0.02%

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 the chief executive of the Company, the following persons (not being a Director or the chief executive of the Company or a member of the Group) 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 subsidiaries of the Company:

(a) Long positions in the Shares

Shareholder	Capacity	No. of Shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289 (Note 1)	38.74%
Thomson	Interest of controlled corporation	753,888,095 (Note 2)	19.32%

Notes:

1. 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 purposes of the SFO.
2. Thomson is deemed to be interested in 67,610,864 Shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purposes of the SFO.
3. The following Directors are directors or employees of the corporations which 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:

Mr. Li Dongsheng is the chairman and president of TCL Corporation. Ms. Lu Zhongli is a director and senior vice president of TCL Corporation. Mr. Shi Wanwen and Mr. Wang Kangping are vice presidents of TCL Corporation. Mr. Yuan Bing is the chief financial officer of TCL Corporation. Mr. Alastair Kenneth Ruskin Campbell is the president of China business for Thomson based in Beijing. Mr. Didier Trutt is a senior executive vice president of Thomson.

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

Name of subsidiary	Name of substantial shareholder	Percentage of holding
1. Guangzhou Digital Rowa Technology Co., Ltd. (廣州數碼樂華科技有限公司)	• Guangzhou Science City Development Public Co., Ltd. (廣州南方科學城發展科學有限公司)	30%
2. 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)	47.86%
3. PT. TCL Indonesia	• Junaide Sungkono	20%
4. TCL Electronics (Singapore) Pte Ltd.	• Dragoncom Shenzhen Investment Ltd. (深圳市浩龍投資有限公司)	15%
5. TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL王牌電器(無錫)有限公司)	• 無錫電儀資產經營有限公司	30%
6. TCL Digital Science and Technology (Wuxi) Company Limited	• 無錫電儀資產經營有限公司	30%
7. Sizzon Pte Ltd.	• Junaide Sungkono	20%

Save as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or the chief executive of the Company or a member of the Group) 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 meetings of subsidiaries of the Company or any options in respect of such capital.

4. MATERIAL ADVERSE CHANGE

Save for the information regarding the financial position, results and performance of the Group as set out in (i) the Company's announcement dated 31 October 2006 in respect of the release of the lock up of the Shares held by Thomson; (ii) the Company's announcement dated 27 October 2006 in respect of the Group's restructuring of the business in Europe; (iii) the Company's interim results announcement dated 30 August 2006; (iv) the profit warning announcement issued by the Company on 10 July 2006; and (v) the Company's announcement dated 27 April 2006 in respect of the Group's unaudited consolidated balance sheet as at 31 March 2006 and unaudited consolidated results for the three months ended 31 March 2006, the Directors confirm that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited accounts of the Group 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 them had interests in any business which competes or was likely to compete, either directly or indirectly, with the business of the Group which falls to be discloseable under the Listing Rules.

7. QUALIFICATION AND CONSENT

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

Name	Qualification
KGI	a corporation licensed to carry out types 1, 4 and 6 of the regulated activities under the SFO

KGI has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which they appear. As at the Latest Practicable Date, KGI 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.

8. 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 agreements of the continuing connected transactions, the revision and/or setting of annual caps for a number of continuing connected transactions and the proposed adoption of the New Option Scheme set out in this circular.
- (b) Save as disclosed in (a) above, 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, none of the Directors nor KGI was interested, directly or indirectly, in any assets which had since 31 December 2005 (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.

9. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the agreements of the continuing connected transactions set out in this circular and the proposed New Option Scheme 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 from the date of this circular to 14 February 2007.

The following is a summary of the principal terms of the New Option Scheme to be adopted at the EGM:

1. PARTICIPANTS OF THE NEW OPTION SCHEME

The Participants of the New Option Scheme to whom Options may be granted by the Board shall include any Employee, consultant, adviser, agent, contractor, client or supplier of any member of the Group or any other person whom the Board in its sole discretion considers may contribute or have contributed to the Group.

2. PURPOSE OF THE NEW OPTION SCHEME

The purpose of the New Option Scheme is to recognise and motivate the contribution of Employees and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

3. LIFE OF THE NEW OPTION SCHEME

The Company, by resolution in general meeting, or the Board may at any time terminate the operation of the New Option Scheme and in such event no further Options will be offered but the provisions of the New Option Scheme shall remain in full force and effect in all other respects. In other words Options granted but not yet exercised before the termination of the New Option Scheme will still be exercisable. The terms and conditions of the New Option Scheme will remain in full force and effect with the exception that no further Option will be granted. Subject to the aforesaid, the New Option Scheme shall be valid and effective for a period of ten (10) years commencing from the date of adoption of the New Option Scheme, after which period no further Options will be granted but the provisions of the New Option Scheme shall remain in full force and effect in all other respects.

4. SUBSCRIPTION PRICE

The subscription price for Shares under the New Option Scheme will be a price determined by the Board in its absolute discretion at the time of the grant of the relevant Option and notified to each Grantee but in any case will not be less than the higher of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a Trading Day; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) Trading Days immediately preceding the date of grant; or (3) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Board may grant Options in respect of which the Subscription Price is fixed at different prices for certain periods during the Option Period. Upon acceptance of the Option, the Grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

5. RESTRICTION ON THE TIME OF GRANT OF OPTION

No offer of Options shall be made after a price sensitive development or event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option should be granted until such information has been announced pursuant to the requirements of the Listing Rules.

6. MAXIMUM NUMBER OF SHARES

- 6.1. The total number of Shares which may be issued upon exercise of all Options which may be granted under the New Option Scheme and any other option schemes of the Company ("Scheme Mandate Limit") shall not exceed ten per cent. (10%) of the total number of Shares in issue as at the Adoption Date unless the Company obtains a fresh approval from its Shareholders pursuant to paragraph 6.2 below. Options lapsed in accordance with the terms of the New Option Scheme or any other option schemes of the Company under which such options are granted, as the case may be, shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.
- 6.2. The Company may seek approval of the Shareholders in general meetings to renew the Scheme Mandate Limit provided that the Scheme Mandate Limit so renewed must not exceed ten per cent. (10%) of the Shares in issue at the date of the approval of the renewal by the Shareholders. Upon any such renewal, all Options granted under the New Option Scheme and any other option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Option Scheme and any other option schemes of the Company and exercised options) prior to the approval of such renewal shall not be counted for the purpose of calculating whether the renewed Scheme Mandate Limited has been exceeded. In seeking the approval, the Company shall send a circular to the Shareholders.
- 6.3. The Company may grant Options to Participant(s) beyond the Scheme Mandate Limit if the grant of such Options is specifically approved by the Shareholders in general meeting. In seeking such approval, a circular must be sent to the Shareholders containing a generic description of the identified Participants, the number and terms of the Options to be granted, the purpose of granting Options to the identified Participants, and how these Options serve such purpose.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Option

Scheme and options which may be granted under any other option schemes of the Company shall not exceed 30 per cent. (30%) of the total number of Shares in issue from time to time.

7. OPTION SHARES ENTITLED BY EACH GRANTEE

No Participant shall be granted an Option if the total number of Shares issued and to be issued upon exercise of the Options granted and to be granted (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of grant to such Participant would exceed one per cent. (1%) of the Shares for the time being in issue unless the proposed grant has been approved by the Shareholders in general meeting with the proposed Grantee and his Associates (as defined in the Listing Rules) abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of the proposed Grantee, the number and terms of the Options granted and to be granted. The number and terms of Options to be granted to such proposed Grantee must be fixed before the Shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

8. REQUIREMENTS ON GRANTING OPTIONS TO CONNECTED PERSONS

- 8.1. Any grant of Option to a Connected Person (as defined in the Listing Rules) or his Associates (as defined in the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Option).
- 8.2. Where a grant of option is proposed to be granted to a Substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director or any of their respective Associates (as defined in the Listing Rules) and the proposed grant of Option, when aggregated will result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including exercised, cancelled and outstanding Options) to such person(s) in the past 12-month period up to and including the date of such grant, would entitle such person(s) to subscribe for over 0.1 per cent. (0.1%) of the total Shares in issue for the time being and an aggregate value in excess of HK\$5 million based on the closing price of the Shares at the date of each grant, then the proposed grant of Option must be subject to approval by Shareholders on a poll in a general meeting where all Connected Persons (as defined in the Listing Rules) must abstain from voting (except where such Connected Person(s) intends to vote against the proposed grant of Option and his intention to do so has been stated in the circular). A shareholders' circular must be prepared by the Company explaining the proposed grant of Option, disclosing the number and terms (including the Subscription Price) of the Options proposed to be granted to each Participant and containing a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the proposed Grantee of the Option) as to voting. The shareholders' approval as described above will also be required for any change in the terms of

any Options granted to a Substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director or any of their respective Associates.

The requirements for the granting of options to a director of the Company set out in 8.1 and 8.2 above shall not apply where the Participant is only a proposed executive or non-executive director of the Company.

- 8.3. Additional disclosures will be made in the annual and interim reports of the Company including details of the Options granted to the following persons: (i) each Connected Person (as defined in the Listing Rules); (ii) each Participant with Options granted in excess of the limit referred to in paragraph 7 above; (iii) aggregate figures for the Employees; (iv) aggregate figures for suppliers of goods or services; and (v) all other Participants as an aggregate whole.

9. TIME OF EXERCISE OF OPTION

An Option may be exercised in accordance with the terms of the New Option Scheme at any time during a period as the Board may determine which shall not be more than ten (10) years from the date of grant of the Option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an Option during the period an Option may be exercised.

10. RIGHTS ARE PERSONAL TO GRANTEE

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such Grantee.

11. RIGHTS ON CEASING EMPLOYMENT

In the event of the Grantee, being an Employee at the date of grant, ceasing to be an Employee for any reason, other than death or the termination of employment on any of the grounds referred to in paragraph 13 below, the Grantee may exercise the Option up to his entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day with the Company or the relevant member of the Group whether salary is paid in lieu of notice or not (provided that the retirement of any director(s) of the relevant member of the Group by rotation pursuant to the articles of association of the relevant member of the Group at annual general meeting of such member who is/are re-elected at the same annual general meeting shall not be regarded as ceasing employment for the purpose of this paragraph).

12. RIGHTS ON DEATH

In the event of the death of the Grantee (provided that none of the events which would be a ground for termination of employment referred to in paragraph 13 below arises prior to the death, in the case the Grantee is an Employee at the date of grant), the legal personal representative(s) of the Grantee shall be entitled within a period of twelve (12) months from the date of death to exercise the Option up to the entitlement of such Grantee as at the date of death (to the extent which has become exercisable and not already exercised).

13. RIGHTS ON DISMISSAL

In the event the Grantee, being an Employee at the date of grant, ceases to be an Employee by reason of termination of employment on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's service contract with the Company or the relevant Subsidiary, his Option shall lapse automatically (to the extent not already exercised) on the date on which the Grantee ceases to be an Employee.

14. EFFECT OF ALTERATIONS TO CAPITAL

In the event of any alteration in the capital structure of the Company pursuant to a capitalisation issue, rights issue, open offer, sub-division or consolidation of shares or reduction of capital of the Company whilst any Option remains exercisable (excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party), such corresponding alterations (if any) shall be made in the number of Shares subject to the Option so far as unexercised; and/or the Subscription Price, as an independent financial adviser or the auditors to the Company shall certify in writing to the Board, either generally or as regards any particular Grantee that any such alterations shall satisfy the requirements set out in note to Rule 17.03(13) of the Listing Rules (or such rule as from time to time amended by the Stock Exchange), the supplemental guidance issued on 5 September 2005 or any guidance note issued by the Stock Exchange in relation thereto, provided that any alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a Grantee is entitled after such alteration shall remain the same as that to which he was entitled before such alteration and that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value.

15. RIGHTS ON A GENERAL OFFER

If a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, the Grantee (or, as the

case may be, his legal personal representatives) shall be entitled to exercise the Option in full (to the extent which has become exercisable and not already exercised) at any time within fourteen (14) days after the date on which the offer becomes or is declared unconditional.

16. RIGHTS ON WINDING UP

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or, as the case may be, his legal personal representatives) shall be entitled to exercise all or any of his Options at any time not later than two (2) Business Days prior to the proposed general meeting of the Company (to the extent which has become exercisable and not already exercised) whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting allot the relevant Shares to the Grantee credited as fully paid.

17. RIGHTS ON A COMPROMISE OR ARRANGEMENT

If an application is made to the court (otherwise than where the Company is being voluntarily wound up) in connection with a proposed compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), the Grantee may by notice in writing to the Company within twenty-one (21) days after the date of such application, exercise the option in full (to the extent which has become exercisable and not already exercised) or to the extent specified in such notice.

18. LAPSE OF OPTION

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- 18.1. the expiry of the Option period;
- 18.2. the expiry of any of the periods referred to in paragraphs 11, 12, 15 or 16 above;
- 18.3. subject to paragraph 16 above, the date of the commencement of the winding-up of the Company;
- 18.4. the date on which the Grantee ceases to be an Employee by reason of paragraph 13 above;
- 18.5. subject to the proposed compromise or arrangement becoming effective, the expiry of the period referred to in paragraph 17 above; or
- 18.6. the date on which the Grantee commits a breach of paragraph 10 above.

19. RANKING OF SHARES

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders of Options to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment.

20. ALTERATION(S) TO NEW OPTION SCHEME

The New Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the New Option Scheme relating to (i) matters set out in Rule 17.03 of the Listing Rules to the advantage of Participants; (ii) any change to the authority of the Board in relation to any alteration to the terms of the New Option Scheme; or (iii) the terms and conditions of the New Option Scheme which are of a material nature (except where such alterations take effect automatically under the existing terms of the New Option Scheme) shall not be made except with the prior sanction of a resolution by the Shareholders, provided that no such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alteration except with the consent or sanction in writing of such number of Grantees who shall together hold Options in respect of not less than three-fourths in nominal value of all Shares that to be issued on exercise of the Options granted under the New Option Scheme.

The amended terms of the New Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

21. CANCELLATION OF OPTIONS GRANTED

The Board may cancel any Option granted but not exercised and may issue new Option to the Grantee of any cancelled Option provided that the issue of such new Option may only be made under a scheme with available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit.

22. PERFORMANCE TARGET

There is no performance target that must be achieved before the Options can be exercised.

23. CONDITIONS OF NEW OPTION SCHEME

The New Option Scheme is conditional upon (1) the passing of the necessary resolution by the Shareholders in general meeting to approve and adopt the New Option Scheme; and (2) the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in the Shares to be issued pursuant to the exercise of the Options under this New Option Scheme pursuant to the Scheme Mandate Limit.

Set out below are the particulars of the Directors who will be proposed to be elected at the EGM.

1. Mr. Shi Wanwen, aged 40, is the Vice President of TCL Corporation, the controlling Shareholder, and the Chief Operating Officer of TTE, a wholly-owned subsidiary of the Company. Before taking up these positions in June 2005, Mr. Shi had previously been the General Vice President of TCL Electrical Appliance Sales Co., Ltd., a subsidiary of the Company, and the President of the Multimedia Electronics Business Unit of TCL Corporation. Mr. Shi holds a Bachelor degree in Wireless Technology from the South China University of Technology.
2. Mr. Yuan Bing, aged 36, has 15 years of experience in the consumer electronics industry. He graduated from the Shanxi University of Finance and Economics, majoring in Accounting. Before joining TCL Corporation, the Company's controlling shareholder, in 1999, Mr. Yuan had been the Deputy Finance Manager of 湖北宜昌電子管廠, accountant of the air-conditioning factory of GD Midea Holdings Co., Ltd. and finance manager of 深圳天元金融電子有限公司. Mr. Yuan has extensive experience in accounting and financial matters. Mr. Yuan was appointed the general manager of the financial control centre and is the Chief Financial Controller of TCL Corporation overseeing its finance department. From January 2002 to August 2005, Mr. Yuan was president of the Strategic Development Department of TCL Corporation and also acted as the Deputy General Manager of the Company responsible for investor relations matters.
3. Mr. Robert Maarten Westerhof, aged 63, has over thirty years' experience in the electronics industry. He was formerly the Executive Vice President of Philips Electronics' operations in Asia and North America. Since 2004, he has been the President of the renowned Dutch football club PSV. He is now a director of Getronics NV, an information technology company listed on the Amsterdam Exchanges, Teleplan International GmbH, a hardware services provider listed on the Frankfurt Stock Exchange and HHK Plc, a healthcare company listed on the London Stock Exchange. He is now also a member of the advisory board of Verdonck, Klooster & Associates, a software company based in the Netherlands. Mr. Westerhof holds a Master degree in Business Administration from the Erasmus University of Rotterdam. He is also a graduate of Harvard Business School's Advanced Management Program and International Senior Management Program.

Due to Mr. Westerhof's extensive experience in the electronics industry, the Company engaged Mr. Westerhof as a consultant from about September 2004 until August 2006 to provide general insight on market sentiment and the global electronics industry. Such services were of a general nature, and Mr. Westerhof had not been involved in any decision-making process regarding any aspect of the business of the Company or its subsidiaries. His remuneration from the Company was also rather immaterial in size. Therefore, Mr. Westerhof considers and the Company agrees that his consultancy services provided to the Company in the past are general and immaterial in nature, and thus does not affect his independence.

OTHER INFORMATION

Please refer to the section titled “Directors’ Interests” set out on pages 50 and 51 of this circular for the interests of each of Mr. Shi, Mr. Yuan and Mr. Westerhof in the Shares within the meaning of Part XV of the SFO.

Mr. Shi, Mr. Yuan and Mr. Westerhof have not entered into any service contract with the Company. Their emoluments will be determined by the Board based on the recommendation of the Remuneration Committee of the Company, with reference to their duties and responsibilities with the Company and the market rate for the positions. Mr. Shi and Mr. Yuan have no fixed term of director’s service with the Company but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles, whilst Mr. Westerhof will hold office until the conclusion of the annual general meeting of the Company to be held in 2008, subject then to re-election by Shareholders.

Save as disclosed herein, Mr. Shi, Mr. Yuan and Mr. Westerhof do not have any relationship with any other directors, senior management or any substantial or controlling shareholders of the Company, and they do not at present, and in the past three years did not, hold any directorship in any listed public company.

Save as disclosed herein, there is no information which is discloseable nor are/were they involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under paragraphs 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and the Board is not aware of any other matters which need to be brought to the attention of the Shareholders.

NOTICE OF EGM



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 Salon 2 & 3, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Admiralty, Hong Kong on 15 February 2007 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions (with or without modification):

ORDINARY RESOLUTIONS

1. **“THAT** the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Thomson preferred supplier agreement dated 30 July 2004 entered into between Thomson S.A. and TTE Corporation set out in the circular dated 29 January 2007 are hereby approved, ratified and confirmed.”
2. **“THAT** the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the TCL trademark license agreement dated 30 July 2004 entered into between TCL Corporation and TTE corporation set out in the circular dated 29 January 2007 are hereby approved, ratified and confirmed.”
3. **“THAT** the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the TCL preferred supplier agreement dated 30 July 2004 entered into between TCL Corporation and TTE Corporation set out in the circular dated 29 January 2007 are hereby approved, ratified and confirmed.”
4. **“THAT** (i) the supplemental agreement dated 5 January 2007 to the master overseas supply agreement dated 29 December 2004 entered into between TCL Corporation and the Company (the “Master Overseas Supply Agreement”) (a copy of the agreement has been produced to this meeting and marked “A” and initialed by the Chairman of this meeting for the purpose of identification) be and is hereby approved, ratified, and confirmed and any director of the Company be and is hereby authorised to take such action, do such things and execute such further documents or deed, as such director may, in his opinion, deem necessary or desirable for the purpose of implementing or giving effect to the said supplemental agreement; and (ii) the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Master Overseas Supply Agreement (as amended by the supplemental agreement to it) set out in the circular dated 29 January 2007 are hereby approved, ratified and confirmed.”

NOTICE OF EGM

5. **“THAT** (i) the master logistics service supply agreement dated 5 January 2007 entered into between Shenzhen Speed Distribution Platform Co., Ltd (深圳速必達商務服務有限公司) and the Company (the “Master Logistics Service Supply Agreement”) and the master call centre services supply agreement dated 5 January 2007 entered into between TCL Corporation and the Company (the “Master Call Centre Services Supply Agreement”) set out in the circular dated 29 January 2007 (copies of these two agreements have been produced to this meeting and marked “B” and “C” respectively and initialed by the Chairman of this meeting for the purpose of identification), the terms of and the transactions contemplated thereunder be and are hereby approved, ratified, and confirmed and any director of the Company be and is hereby authorized to take such action, do such things and execute such further documents or deeds as such director may, in his opinion, deem necessary or desirable for the purpose of implementing or giving effect to the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement; and (ii) the proposed caps for the three years ending 31 December 2009 in respect of the transactions under the Master Logistics Service Supply Agreement and the Master Call Centre Services Supply Agreement set out in the circular dated 29 January 2007 are hereby approved, ratified and confirmed.”

6. **“THAT** subject to and conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (“Listing Committee”) granting approval of the listing of, and permission to deal in, the shares to be issued pursuant to the exercise of options which may be granted under the new share option scheme (“New Option Scheme”), a copy of which has been produced to this meeting marked “D” for the purpose of identification, the terms of the New Option Scheme be and are hereby approved and adopted and that each and every director of the Company (the “Directors”) be and is hereby authorized to grant options thereunder, to subscribe for the shares in the Company (“Shares”) and to allot, issue, distribute and deal with the Shares pursuant to the exercise of options granted under the New Option Scheme and to execute such documents and take all such steps and do all such acts and enter into all such transactions and arrangements as may be necessary or desirable to implement the New Options Scheme in accordance with the terms specified therein and subject to the terms of the New Option Scheme the Directors may vote in respect of any resolution under or affecting the New Option Scheme notwithstanding any interest of any of the Directors thereunder (including his own interest).”

7. **“THAT** Mr. Shi Wanwen be and is hereby elected as an executive director of the Company and the board of directors of the Company (the “Board”) be and is hereby authorised to fix his remuneration.”

8. **“THAT** Mr. Yuan Bing be and is hereby elected as an executive director of the Company and the Board be and is hereby authorised to fix his remuneration.”

NOTICE OF EGM

9. “**THAT** Mr. Robert Maarten Westerhof be and is hereby elected as an independent non-executive director of the Company to serve until the conclusion of the annual general meeting of the Company to be held in 2008 and the Board be and is hereby authorised to fix his remuneration.”

By order of the Board
Li Dongsheng
Chairman

Hong Kong, 29 January 2007

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 with the circular of the Company dated 29 January 2007.
- (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”), the voting on ordinary resolutions numbered 1 to 5 will be conducted by way of poll. Thomson and its associates (as defined in the Listing Rules) are required to abstain from voting in respect of the resolution no. 1. TCL Corporation and its associates (as defined in the Listing Rules) are required to abstain from voting in respect of the resolution nos. 2 to 5.
- (5) The register of members of the Company will be closed on 15 February 2007, for the purposes of determining the entitlements of the members of the Company to attend and vote at the meeting. No transfer of the shares of the Company 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 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on 14 February 2007.
- (6) As at the date of this notice, the board of Directors comprises Li Dongsheng, Lu Zhongli, Wang Kangping, Shi Wanwen and Yuan Bing as executive directors, Albert Thomas da Rosa, Junior, Alastair Kenneth Ruskin Campbell and Didier Trutt as non-executive directors, and Tang Guliang, Wang Bing and Robert Maarten Westerhof as independent non-executive directors.