THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

(1) PROPOSED RIGHTS ISSUE OF NOT LESS THAN 1,951,475,863 RIGHTS SHARES AND NOT MORE THAN 2,019,010,863 RIGHTS SHARES OF HK$0.1 EACH AT HK$0.40 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES HELD ON THE RECORD DATE); (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) INCREASE OF THE AUTHORIZED SHARE CAPITAL AND ALLOTMENT OF THE CONVERSION SHARES IN RELATION TO THE PROPOSED ISSUE OF 4.5% CONVERTIBLE BONDS DUE 2012

Underwriter for the Rights Issue

T.C.L. Industries Holdings (H.K.) Limited

Financial adviser to TCL Multimedia Technology Holdings Limited in respect of the Rights Issue

CIMB

CIMB-GK Securities (HK) Limited

Independent Financial Adviser to the Independent Board Committee

taifook

TAI FOOK CAPITAL LIMITED

A letter from the Board is set out on pages 9 to 37 of this circular.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 38 of this circular.

A letter from Taifook Capital Limited, the Independent Financial Adviser to the Independent Board Committee, containing its advice in connection with the Whitewash Waiver is set out on pages 39 to 58 of this circular.

It should be noted that the last day of dealings in Shares on a cum-rights basis is 13 June 2007. The Shares will be dealt with on an ex-rights basis from 14 June 2007.

To qualify for the Rights Issue, a Qualifying Shareholder's name must appear on the register of members of the Company on the Record Date, which is currently expected to be 21 June 2007. In order to be registered as a member of the Company on the Record Date, any transfers of Shares (with the relevant share certificates) must be lodged to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration by 4:00 p.m. on 15 June 2007.

A notice convening the EGM to be held at Gloucester Room, 2nd Floor, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong at 2:30 p.m. on 21 June 2007 is set out on pages 179 to 180 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment of it if you so wish.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

(a) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

- **(i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or**
- **(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or**
- **(iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or**
- **(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or**
- **(v) a change or development involving a prospective material change in taxation in Hong Kong or the implementation of exchange controls which shall or might materially adversely affect the Company; or**
- **(vi) any material change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong, the PRC or the US (including without limitation suspension or material restriction on trading in securities); or**

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(c) the circular in relation to the Rights Issues or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or

(d) if the Underwriter shall receive notification of, or shall otherwise become aware of, the fact that any of the representations or warranties given by the Company in the Underwriting Agreement was, when given, untrue or inaccurate in any material respect or would be untrue or inaccurate in any material respect if repeated as provided in the Underwriting Agreement and the Underwriter shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

(e) any change occurs in the circumstances of the Company or any member of the Group, or the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission, which, in the sole opinion of the Underwriter, would materially and adversely affect the business, financial or trading position or prospects of the Group as a whole; or

(f) the occurrence of any event, or series of events, beyond the control of the Underwriter which, at the absolute discretion of the Underwriter, have or would have the effect of making any part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof or which have or is likely to have a material prejudicial effect on the Rights Issue.

As far as the Company is aware, there is no information falling within paragraph (c) above.

Pursuant to the Underwriting Agreement, a European Restructuring Event shall not constitute a cause for termination of the Underwriting Agreement by the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

The Shares will be dealt in on an ex-rights basis from 14 June 2007. Dealings in the Rights Shares in the nil-paid form will take place from 26 June 2007 to 4 July 2007 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriter may determine in writing), or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed and the Rights Issue will lapse.

Any persons contemplating buying or selling Shares from the date of the Rights Issue Announcement up to the date on which all the conditions of the Rights Issue are fulfilled or waived, and any dealings in the Rights Shares in their nil-paid form between 26 June 2007 to 4 July 2007 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

As the Purchase Agreement is subject to the satisfaction of certain conditions precedent, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

5 June 2007

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EXPECTED TIMETABLE FOR THE RIGHTS ISSUE

The expected timetable for the Rights Issue set out below is indicative only and has been prepared on the assumption that the Rights Issue will become unconditional. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as soon as practicable. All times and dates in this circular refer to Hong Kong local times and dates.

	Hong Kong time (2007)
Despatch of the Company's circular with notice of EGM	5 June
Last day of dealing in Shares on a cum-rights basis	13 June
First day of dealing in Shares on an ex-rights basis	14 June
Latest time for lodging transfer of Shares in order to qualify for the Rights Issue	4:00 p.m. on 15 June
Latest time for return of the form of proxy for use at the EGM	2:30 p.m. on 19 June
Register of members of the Company closes (both dates inclusive)	18 June to 21 June
Date of EGM	2:30 p.m. on 21 June
Record Date	21 June
Announcement of results of EGM appears in newspapers	22 June
Register of members re-opens	22 June
Despatch of the Rights Issue Documents	22 June
First day of dealings in nil-paid Rights Shares	26 June
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on 28 June
Last day of dealings in nil-paid Rights Shares	4 July
Latest time for acceptance of and payment for Rights Shares	4:00 p.m. on 9 July
Latest time for the Rights Issue to become unconditional	4:00 p.m. on 11 July
Announcement of results of acceptance of and excess applications for the Rights Issue appears in newspapers	13 July

	Hong Kong time (2007)
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful excess applications for excess Rights Shares on or before	16 July
Despatch of certificates for fully-paid Rights Shares on or before	16 July
Commencement of dealings in fully-paid Rights Shares	18 July

Note:

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE RIGHTS SHARES

The latest time for acceptance of and payment for the Rights Shares will not take place if there is:

(i) a tropical cyclone warning signal number 8 or above; or

(ii) a "black" rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of and payment for the Rights Shares. Instead, the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day, which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

If the latest time for acceptance of and payment for the Rights Shares does not take place on the expected latest date for acceptance of the offer of the Rights Shares, the dates subsequent to the said latest expected date mentioned in this section may be affected. A press announcement will be made by the Company in such event as soon as practicable.

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"associate"	has the meaning ascribed to it under the Listing Rules
"Accrued Interest"	accrued interest on the principal amount of the Bonds to be redeemed from and including the immediately preceding interest payment date of the Bonds to but excluding the date fixed for redemption
"Annual Reset Date"	any of the first, second or third anniversary of the Closing Date
"Board"	the board of Directors
"Bonds Announcement"	the announcement of the Company dated 21 May 2007 in relation to, among other things, the Bond Issue
"Bond(s)"	the 4.5% secured convertible bonds in an aggregate principal amount of US$140 million to be issued by the Company pursuant to the Purchase Agreement
"Bondholder(s)"	holder(s) of the Bonds from time to time
"Bondholders' Ordinary Resolution"	a resolution approved by Bondholder(s) holding or representing 50% in the principal amount of the Bonds for the time being outstanding
"Bond Issue"	the issue of the Bonds to, and the purchase of the Bonds by, the Purchaser pursuant to the terms of the Purchase Agreement
"Business Day"	a day (other than a Saturday) on which banks generally are open for business in Hong Kong
"Cash Settlement Amount"	the product of (a) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s), and in respect of which the Company has elected the Cash Settlement Option; and (b) the prevailing market price per Share as at the Trading Day following the date on which the Company delivers a notice to a Bondholder to exercise the Cash Settlement Option

"Cash Settlement Option"	the option exercisable by the Company as described under the paragraph headed "Cash Settlement Option" under the section headed "Principal Terms of the Bonds" in this circular
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Change of Control"	the acquisition of the rights to appoint the majority of the Directors or acquisition of substantially all of the Shares or where a merger of the Company results in the same
"Closing Date"	the date which is 10 days after the first date on which all of the conditions precedent to the Purchase Agreement are satisfied or such other date as shall be agreed between the Company and the Purchaser
"Closing Price"	the price of the Shares published in the daily quotation sheet published by the Stock Exchange
"Club Loan Agreement"	the HK$400,000,000 Term Loan Facility Agreement dated 23 December 2002 (as revised) entered into between the Company and certain banks and financial institutions
"Company"	TCL Multimedia Technology Holdings Limited (previously known as TCL International Holdings Limited), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to it in the Listing Rules
"Conversion Period"	the period during which the Bondholder(s) may exercise Conversion Rights (i.e. at any time from 30 Trading Days after the Closing Date up to the close of business on the Maturity Date or, if the Bonds shall have been called for redemption before the Maturity Date, up to the close of business on a date no later than seven Business Days prior to the date fixed for redemption)
"Conversion Price"	the price to be paid by the Bondholders for conversion of the Bonds to Shares, which will initially be HK$0.40 per Share (subject to reset and adjustment)
"Conversion Rights"	the right of a Bondholder to convert any Bonds into Conversion Shares

"Conversion Shares"	Shares to be allotted and issued by the Company upon conversion of the Bonds
"Director(s)"	the director(s) of the Company
"Early Redemption Amount"	for each US$10,000 (equivalent to HK$78,200) principal amount of the Bonds, the amount which is calculated as follows: issue price of each Bond + issue price of each Bond x (137.5% – 100% of the principal amount of each Bond) x Redemption Period/1800 + Accrued Interest
"Effective Initial Conversion Price"	the conversion price, after the Initial Reset, at which the Bondholders are entitled to exercise their conversion right at the commencement of the Conversion Period
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of, among other matters, considering and approving the Whitewash Waiver, the increase of the authorized share capital and the issue and allotment of the Conversion Shares
"European Restructuring Event"	any member of the Group, the operations of which take place solely in Europe, becoming insolvent, making any voluntary arrangement with its creditors, becoming subject to an administration order, going into liquidation or ceasing to carry on business on or after the date of the Underwriting Agreement
"European Subsidiaries"	several subsidiaries of the Company operating in Europe which have commenced or will commence liquidation or receivership proceedings
"Excluded Shareholders"	the Overseas Shareholders whom the Board, after making enquiries and based on legal opinions provided by legal advisers, considers it necessary or expedient not to offer the Rights Issue to such Shareholders on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates

"Financial Indebtedness"	Any indebtedness for or in respect of: (A) moneys borrowed including any loans or advances from shareholders, affiliated entities and TCL Finance Co., Ltd.; (B) any amount raised by acceptance under any acceptance credit facility; (C) any amount raised pursuant to any note purchase facility or the issue of the bonds, notes, debentures, loan stock or any similar instrument; (D) the amount of any liability in respect of any lease or hire purchase contract which would be treated as a finance or capital lease; (E) receivables sold or discounted; (F) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; (G) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculation the value of any derivative transaction, only the marked to market value shall be taken into account); (H) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and (I) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (A) to (H) above
"Group"	the Company and its subsidiaries from time to time
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	the independent committee of the Board, comprising Messrs. Tang Guliang, Wang Bing and Robert Maarten Westerhof, being all the independent non-executive directors who have no direct or indirect interest in the Rights Issue and the Whitewash Waiver, established for the purpose of advising the Independent Shareholders on (i) whether the terms of the Whitewash Waiver are fair and reasonable, and (ii) how to vote
"Independent Financial Adviser"	Tai Fook Capital Limited, a licensed corporation licenced to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
"Independent Shareholders"	Shareholders other than (1) TCL Industries and its associates and parties acting in concert with any of them; and (2) any other Shareholders who are involved in or interested in the Underwriting Agreement, the Rights Issue and the Whitewash Waiver
"Initial Conversion Price"	the initial Conversion Price of the Bonds (as at the Closing Date) of HK$0.40
"Initial Reset Date"	the 26th consecutive Trading Day immediately after the completion of the Rights Issue
"Last Trading Date"	14 May 2007, being the last trading day of the Shares prior to the release of the Rights Issue Announcement
"Latest Acceptance Time"	being 4:00 p.m. on 9 July 2007 or such later time as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of Rights Shares
"Latest Practicable Date"	1 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
"Latest Time for Termination"	4:00 p.m. on the second Business Day after the Latest Acceptance Time, being the latest time by which the Underwriter may terminate the Underwriting Agreement
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Market Securities"	any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market

"Maturity Date"	the fifth anniversary day of the Closing Date
"Outstanding Options"	the options granted by the Company to subscribe for an aggregate of 135,070,000 Shares pursuant to the Share Option Scheme, which are outstanding as at the Latest Practicable Date
"Overseas Shareholder(s)"	the Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
"PRC"	the People's Republic of China excluding Hong Kong and Macau for the purposes of this circular
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue
"Purchaser"	Deutsche Bank AG, London
"Purchase Agreement"	the agreement entered into on 18 May 2007 between the Company and the Purchaser regarding the Bond Issue
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholders, whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	21 June 2007 or such other date as may be agreed between the Company and the Underwriter
"Redemption Period"	number of days from and including the date of issue of the Bonds up to and including the date for redemption on a 360 days' per year basis
"Reference Price"	the lower of HK$0.58 and the Volume Weighted Average Price of the Shares for a period of 25 consecutive Trading Days immediately after the completion of the Rights Issue
"Rights Issue"	the proposed issue of Rights Shares by the Company on the basis of 1 Rights Share for every 2 existing Shares to the Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the issue

"Rights Issue Announcement"	the announcement of the Company dated 15 May 2007 in relation to, among other things, the proposed Rights Issue and application for Whitewash Waiver
"Rights Issue Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
"Rights Share(s)"	not less than 1,951,475,863 new Shares and not more than 2,019,010,863 new Shares to be issued by the Company pursuant to the Rights Issue
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary shares which have a par value of HK$0.10 each in the capital of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 15 February 2007
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Monies"	the subscription monies payable by the Underwriter to the Company in respect of the Rights Shares underwritten by the Underwriter
"Subscription Price"	the subscription price of HK$0.40 per Rights Share
"Subsidiary"	has the meaning ascribed to it in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Syndicated Loan Agreement"	the agreement entered into on 16 November 2004 (as revised) between the Company and certain banks and financial institutions regarding facility of US$180 million (equivalent to approximately HK$1,407 million)
"Taifook Capital Limited"	a licensed corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
"Takeovers Code"	the Codes on Takeovers and Mergers

"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 shares of which are listed on the Shenzhen Stock Exchange and the ultimate controlling shareholder of the Company
"TCL Industries"	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated in Hong Kong with limited liability, the immediate holding company of the Company and a wholly-owned subsidiary of TCL Corporation
"Trading Day"	a day on which the Stock Exchange is open for trading
"TTE Group"	TTE Corporation, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of the Company, and its subsidiaries
"Underwriter"	TCL Industries
"Underwriting Agreement"	the underwriting agreement dated 15 May 2007 entered into between the Company and the Underwriter in relation to the Rights Issue
"Underwritten Shares"	1,195,415,219 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date) and 1,262,950,219 Rights Shares (assuming all Outstanding Options are exercised in full on or before the Record Date), being all Rights Shares less such number of Rights Shares agreed to be taken up or procured to be taken up by the Underwriter in respect of its pro rata entitlement as the Qualifying Shareholder
"United States" or "U.S."	United States of America
"Volume Weighted Average Price"	the order book daily volume-weighted average price of the Shares appearing on or derived from Bloomberg
"Whitewash Waiver"	a waiver from the obligation of TCL Industries and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the allotment and issue of Right Shares
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	U.S. dollar(s), the lawful currency of the United States
"%"	per cent.

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1070)

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

Non-executive Directors:
Albert Thomas da Rosa, Junior

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

5 June 2007

To the Shareholders

(1) PROPOSED RIGHTS ISSUE OF NOT LESS THAN 1,951,475,863 RIGHTS SHARES AND NOT MORE THAN 2,019,010,863 RIGHTS SHARES OF HK$0.1 EACH AT HK$0.40 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES HELD ON THE RECORD DATE);
(2) APPLICATION FOR WHITEWASH WAIVER; AND
(3) INCREASE OF THE AUTHORIZED SHARE CAPITAL AND ALLOTMENT OF THE CONVERSION SHARES IN RELATION TO THE PROPOSED ISSUE OF 4.5% CONVERTIBLE BONDS DUE 2012

INTRODUCTION

On 15 May 2007, the Board announced that the Company proposed to raise not less than HK$780.6 million before expenses by issuing not less than 1,951,475,863 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date) and to raise not more than approximately HK$807.6 million before expenses by issuing not more than 2,019,010,863 Rights Shares (assuming all Outstanding Options are exercised on or before the Record Date) at the Subscription Price of HK$0.40 per Rights Share on the basis of 1 Rights Share for every 2 existing Shares in issue on the Record Date.

The Rights Shares will be fully underwritten by TCL Industries, based on the terms and conditions set out in the Underwriting Agreement. Details of the major terms and conditions of the Underwriting Agreement are set out in the paragraph headed "Underwriting Agreement" of this circular. TCL Industries is a substantial Shareholder and therefore a connected person (as defined in the Listing Rules) of the Company. The Underwriting Agreement constitutes an exempt connected transaction of the Company under Rule 14A.31(3)(c) of the Listing Rules, and is therefore exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, TCL Industries, the controlling shareholder (as defined in the Listing Rules) of the Company, and parties acting in concert with TCL Industries are beneficially interested in a total of 1,534,109,289 Shares, of which 1,512,121,289 Shares were held by TCL Industries (or its nominee(s)) and 21,988,000 Shares were held by Mr. Li Dongsheng, the Chairman of the Company and a director of TCL Industries and TCL Corporation representing approximately 39.31% of the existing issued share capital of the Company.

In the event that the Underwriter is called upon to subscribe for the Rights Shares in full pursuant to its obligations under the Underwriting Agreement, the interest of the Underwriter and parties acting in concert with it in the Company would increase from approximately 39.31% to a maximum of approximately 59.54% of the Company's issued share capital immediately upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date). Accordingly, the underwriting by the Underwriter of the Rights Issue may trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code for all the Shares not held by the Underwriter and persons acting in concert with it.

A formal application has been made by TCL Industries to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Rights Issue is conditional upon the fulfillment or waiver of the conditions set out under the paragraph headed "Conditions of the Rights Issue" under the section headed "Proposed Rights Issue" in this circular below. In particular, it is subject to the Underwriting Agreement not being terminated in accordance with its terms (see the paragraph headed "Termination of the Underwriting Agreement" under the section headed "Proposed Rights Issue" in this circular below). If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue are not fulfilled or waived, the Rights Issue will not proceed.

On 18 May 2007, the Company and the Purchaser entered into the Purchase Agreement pursuant to which, subject to certain conditions, the Company agreed to issue and the Purchaser agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds in the principal amount of US$140 million (equivalent to approximately HK$1,095 million).

For illustration purposes only, assuming full conversion of the Bonds at the maximum Effective Initial Conversion Price of HK$0.667 per Share, the Bonds will be convertible into 1,641,379,310 Conversion Shares (subject to adjustment), representing approximately 42.05% of the issued share capital of the Company as at the date of the Bond Announcement and approximately 21.90% of the enlarged issued share capital of the Company upon full conversion of the Bonds and completion of the Rights Issue (assuming no Shares will be issued upon exercise of options under the Share Option Scheme).

For illustration purposes only, assuming full conversion of the Bonds at the minimum Effective Initial Conversion Price of HK$0.40 per Share, the Bonds will be convertible into 2,737,000,000 Conversion Shares (subject to adjustment), representing approximately 70.13% of the issued share capital of the Company as at the date of the Bond Announcement and approximately 31.86% of the enlarged issued share capital of the Company upon full conversion of the Bonds and completion of the Rights Issue (assuming no Shares will be issued upon exercise of options under the Share Option Scheme).

Completion of the Purchase Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein including completion of the Rights Issue and the Shareholders having approved in the EGM the issue and allotment of the Conversion Shares.

The Independent Board Committee, which comprises all independent non-executive Directors, has been established to advise the Independent Shareholders as to (i) whether the terms of the Whitewash Waiver are fair and reasonable, and (ii) how to vote, and whether the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole, taking into account the recommendations of the Independent Financial Adviser. As Mr. Albert Thomas da Rosa, Junior, a non-executive Director, is also a partner of Cheung, Tong & Rosa, the legal advisers to the Company as to Hong Kong Law, the Company considers that to avoid any potential conflict of interests, Mr. Albert Thomas da Rosa, Junior should not be a member of the Independent Board Committee.

Taifook Capital Limited has been appointed by the Independent Board Committee to advise the Independent Board Committee as to whether the terms of the Whitewash Waiver are fair and reasonable and whether the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to give you further information on, among other things, the Rights Issue, the Whitewash Waiver and the Bonds, the advice and recommendation of the Independent Board Committee to the Independent Shareholders and the letter from Taifook Capital Limited to the Independent Board Committee together with a notice convening the EGM.

PROPOSED RIGHTS ISSUE

Basis of the Rights Issue:	1 Rights Share for every 2 existing Shares held on the Record Date
Number of existing shares in issue as at the Latest Practicable Date:	3,902,951,727 Shares
Number of Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date):	1,951,475,863 Rights Shares
Outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares as at the Latest Practicable Date:	Outstanding Options attaching subscription rights to subscribe for 135,070,000 Shares
Maximum number of Rights Shares:	Assuming exercise of the subscription rights attaching to all Outstanding Options on or before the Record Date, the number of Rights Shares to be issued will be 2,019,010,863 Rights Shares

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represented approximately 50.0% of the Company's issued share capital as at the Latest Practicable Date and approximately 33.3% of the enlarged issued share capital of the Company immediately following the completion of the Rights Issue assuming that no Outstanding Options are exercised on or before the completion of the Rights Issue.

The number of Rights Shares which may be issued pursuant to the Rights Issue will increase in proportion to any additional new Shares which may be allotted and issued pursuant to the exercise of the Outstanding Options on or before the Record Date. As at the Latest Practicable Date, there are Outstanding Options attaching subscription rights to subscribe for 135,070,000 Shares. If all the subscription rights attaching to all such Outstanding Options are duly exercised and Shares are issued and allotted pursuant to such exercise on or before the Record Date, the number of issued Shares will increase to 4,038,021,727 Shares and the number of Rights Shares that may be issued pursuant to the Rights Issue will increase to 2,019,010,863 Rights Shares.

As at the Latest Practicable Date, other than the Outstanding Options, the Company has no derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares.

The Subscription Price

The Subscription Price for the Rights Shares is HK$0.40 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price of HK$0.40 per Rights Share represents:

- a discount of approximately 37.5% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Last Trading Date;
- a discount of approximately 34.4% to the average closing price of HK$0.61 per Share for the five consecutive trading days up to and including the Last Trading Date;
- a discount of approximately 35.5% to the average closing price of HK$0.62 per Share for the 10 consecutive trading days up to and including the Last Trading Date;
- a discount of approximately 28.6% to the theoretical ex-rights price of HK$0.56 per Share based on the closing price as quoted on the Stock Exchange on the Last Trading Date;
- a discount of approximately 40.3% to the closing price of HK$0.67 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a discount of approximately 31.0% to the theoretical ex-rights price of HK$0.58 per Share based on the closing price as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 10.5% over the audited consolidated net tangible asset value per Share of approximately HK$0.362 (calculated by using the latest published audited net tangible asset value of the Group as at 31 December 2006 and dividing this sum total by the 3,902,951,727 Shares in issue as at the Latest Practicable Date); and
- a premium of approximately 14.3% over the unaudited consolidated net tangible asset value per Share of approximately HK$0.350 (calculated by using the latest published unaudited net tangible asset value of the Group as at 31 March 2007 and dividing this sum total by the 3,902,951,727 Shares in issue as at the Latest Practicable Date).

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the then market environment, prevailing Share prices and the recent financial conditions of the Group. In order to enhance the attractiveness of rights issues, issuance of new shares by way of rights issue at a discount to the market price has been commonly adopted by listed issuers in Hong Kong. Given the relatively long underwriting period of a rights issue and taking into account the aforesaid and the theoretical ex-rights price per Share, the Directors consider that, in order to enhance the attractiveness of the Rights

Issue, the discount on the Subscription Price to the current market price of the Shares as proposed is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its shareholding in the Company held on the Record Date. The Directors consider the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Status of the Rights Shares

The Rights Shares, when allotted, issued and fully-paid, will rank pari passu with the then existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form. Holders of such Rights Shares will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the Rights Shares.

Fractions of the Rights Shares

The Company will not provisionally allot fractions of Rights Shares in nil-paid form. All fractions of Rights Shares will be aggregated and all nil-paid Rights Shares arising from such aggregation will be sold in the market and, if a premium (net of expenses) can be achieved, the Company will keep the net proceeds for its own benefit. Any unsold fractions of Rights Shares will be made available for excess application.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders (see the paragraph headed “Excluded Shareholders” below), any unsold fractions of Rights Shares and any nil-paid Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders.

Applications may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings;

(2) subject to availability of excess Rights Shares after allocation under principle (1) above, any further remaining excess Rights Shares will be allocated to applicants in proportion to the excess Rights Shares applied by them; and

(3) in accordance with any further requirements of the Stock Exchange.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the top-up of odd lots for allocation of excess Rights Shares will not be extended to ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Shareholders whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company must lodge all necessary document with the share registrar of the Company in Hong Kong for completion of the relevant registration by 4:00 p.m. on 15 June 2007.

Share certificates for the Rights Shares

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Rights Shares by 16 July 2007 at their own risk.

Qualifying Shareholders

The Company will send (i) the Rights Issue Documents to the Qualifying Shareholders; and (ii) the Prospectus, for information only, to the Excluded Shareholders. The Excluded Shareholders will be entitled to attend and vote at the EGM.

To qualify for the Rights Issue, Shareholders must be registered as members of the Company on the Record Date. In order to qualify for the Rights Issue, a holder of Outstanding Options must (i) exercise its subscription rights in accordance with the relevant procedures specified in the rules of the Share Option Scheme on or before the Record Date; (ii) be registered as a holder of the Shares allotted pursuant to the exercise of the subscription rights of the Outstanding Options on or before the Record Date; and (iii) not be an Excluded Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant Share certificate(s)) with the Company's share registrar in Hong Kong by 4:00 p.m. on 15 June 2007. The last day of dealings in Shares on a cum-rights basis is therefore expected to be 13 June 2007. The Shares will be dealt with on an ex-rights basis from 14 June 2007.

The Company's share registrar in Hong Kong is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

It is intended that the Company's register of members will be closed from 18 June 2007 to 21 June 2007, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Excluded Shareholders

Based on the register of members of the Company as at 31 May 2007, all Shareholders had their registered addresses in Hong Kong, and therefore, there were no Overseas Shareholders.

If there are Overseas Shareholders at the close of business on the Record Date, the Overseas Shareholders may not be eligible to take part in the Rights Issue as explained below.

The Directors will make enquiries, to be based on legal opinions provided by legal advisers if the Directors consider it necessary, as to whether the issue of Rights Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange.

If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. In such circumstances, the Rights Issue will not be extended to the Excluded Shareholders.

The Company will only send the Prospectus to the Excluded Shareholders for their information. The Excluded Shareholders will be entitled to attend and vote at the EGM.

The Rights Issue Documents are not intended to be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK$100 or less for its own benefit.

Share Option Scheme

As at the Latest Practicable Date, there were Outstanding Options attaching subscription rights to subscribe for 135,070,000 Shares granted pursuant to the Share Option Scheme.

Pursuant to the terms of the Share Option Scheme, adjustments to the Outstanding Options may be made if the Rights Issue becomes unconditional. The Company will instruct its auditors to certify in writing the adjustment (if any) that ought to be made to the Outstanding Options and disclose further details of such adjustment (if any) in accordance with the provisions of the Share Option Scheme.

Taxation

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the acquisition, holding or disposal of, or dealing in the Rights Shares and, as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares in their nil-paid form otherwise falling to be issued to them under the Rights Issue. It is emphasized that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled:

(1) the Company despatching this circular to the Shareholders containing, among other matters, details of the Rights Issue and Whitewash Waiver together with the proxy form and notice of the EGM;

(2) the passing by the shareholders of TCL Corporation of a resolution to approve the funding or investment to be provided by TCL Corporation to the Underwriter in connection with the Rights Issue;

(3) the passing by the Independent Shareholders at the EGM by way of poll of an ordinary resolution(s) to approve the Whitewash Waiver by no later than the date on which the Prospectus is despatched;

(4) the Executive granting the Whitewash Waiver to TCL Industries and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;

(5) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the date on which the Prospectus is despatched;

(6) the filing and registration of all documents relating to the Rights Issue, which are required to be filed or registered with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);

(7) the posting of the Rights Issue Documents to the Shareholders; and

(8) compliance with and performance of all the undertakings and obligations of the Company and TCL Industries under the terms of the Underwriting Agreement.

None of the Company and the Underwriter may waive conditions (1) to (7) set out above. The Underwriter may waive condition (8) set out above in whole or in part by written notice to the Company. If any of the conditions of the Rights Issue are not fulfilled or (in respect of condition (8) only) waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriter may determine in writing), the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

UNDERWRITING AGREEMENT DATED 15 MAY 2007

Parties:	(1) the Company (2) TCL Industries, the controlling shareholder of the Company interested in approximately 38.74% of the existing issued share capital of the Company as at the Latest Practicable Date
Number of Shares to be underwritten by TCL Industries:	Not less than 1,195,415,219 Rights Shares and not more than 1,262,950,219 Rights Shares
Commission:	None

The Underwriter is an investment holding company whose ordinary course of business does not include underwriting. The ultimate controlling shareholder of TCL Industries is TCL Corporation. As at the Latest Practicable Date, the directors of TCL Industries comprised Li Dongsheng, Lu Zhongli, Yuan Bing and Zheng Chuan Lie (鄭傳烈), and the directors of TCL Corporation comprised Li Dongsheng, Zheng Chuan Lie (鄭傳烈), Hon Fongming (韓方明), Chen Shidong (陳石東), Rudy Provoost, Xiang Bing (項兵), Zhu Youzhi (朱友植), Yang Shizhong (楊世忠), Chen Shengquan (陳盛泉) and Zeng Xianzhang (曾憲章).

Pursuant to the Underwriting Agreement, subject to the conditions set out therein, the Underwriter has undertaken that (i) the 1,512,121,289 Shares currently held by the Underwriter or its nominees will remain beneficially owned by the Underwriter or its nominee(s) and that it (or its nominee(s)) will have a registered address (as shown in the register of members of the Company) in Hong Kong up to the Record Date; and (ii) the Underwriter will accept or procure the acceptance of such number of Rights Shares to be provisionally allotted to it (or its nominee(s)) pursuant to the Rights Issue in respect of its existing holding of 1,512,121,289 Shares.

Under the terms of the Underwriting Agreement, the Company and the Underwriter agreed that if the conditions of the Rights Issue are fulfilled or waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriter may determine in writing) and the Underwriting Agreement becomes unconditional and is not terminated in accordance with the terms thereof, the Company shall on or before 6:00 p.m. on the first Business Day after the Latest Acceptance Time notify or procure its share registrar in Hong Kong on behalf of the Company to notify the Underwriter in writing of the number of Underwritten Shares not taken up by Qualifying Shareholders on or before the Latest Acceptance Time ("Untaken Shares") and the Underwriter shall subscribe for the Untaken Shares not later than 4:00 p.m. on the second Business Day after the date of the Latest Acceptance Time and pay the relevant Subscription Monies not later than 4:00 p.m. on the third Business Day after the date of the Latest Acceptance Time in full.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Underwriter may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination, any of the following happens:

(a) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(i) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(iii) any material adverse change in the business or in the financial or trading position or prospects of the Group as a whole; or

(iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances; or

(v) a change or development involving a prospective material change in taxation in Hong Kong or the implementation of exchange controls which shall or might materially adversely affect the Company; or

(vi) any material change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong, the PRC or the US (including without limitation suspension or material restriction on trading in securities); or

(b) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this clause includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(c) the circular in relation to the Rights Issues or the Prospectus when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which in the reasonable opinion of the Underwriter is material to the Group as a whole upon completion of the Rights Issue and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it; or

(d) if the Underwriter shall receive notification of, or shall otherwise become aware of, the fact that any of the representations or warranties given by the Company in the Underwriting Agreement was, when given, untrue or inaccurate in any material respect or would be untrue or inaccurate in any material respect if repeated as provided in the Underwriting Agreement and the Underwriter shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or

(e) any change occurs in the circumstances of the Company or any member of the Group, or the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission, which, in the sole opinion of the Underwriter, would materially and adversely affect the business, financial or trading position or prospects of the Group as a whole; or

(f) the occurrence of any event, or series of events, beyond the control of the Underwriter which, at the absolute discretion of the Underwriter, have or would have the effect of making any part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Rights Issue or pursuant to the underwriting thereof or which have or is likely to have a material prejudicial effect on the Rights Issue.

As far as the Company is aware, there is no information falling within paragraph (c) above.

Pursuant to the Underwriting Agreement, a European Restructuring Event shall not constitute a cause for termination of the Underwriting Agreement by the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Underwriting Agreement shall terminate (save in respect of any rights and obligations which may accrue under the Underwriting Agreement prior to such termination) and neither the Company nor the Underwriter shall have any claim against the other party for costs, damages, compensation or otherwise and the Rights Issue will not proceed.

WARNING OF THE RISK OF DEALING IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from 14 June 2007. Dealings in the Rights Shares in the nil-paid form will take place from 26 June 2007 to 4 July 2007 (both days inclusive). If the conditions of the Rights Issue are not fulfilled and/or waived on or before the Latest Acceptance Time (or such later time and/or date as the Company and the Underwriter may determine in writing), or the Underwriting Agreement is terminated by the Underwriter, the Rights Issue will not proceed and the Rights Issue will lapse.

Any persons contemplating buying or selling Shares from the date of the Rights Issue Announcement up to the date on which all the conditions of the Rights Issue are fulfilled or waived, and any dealings in the Rights Shares in their nil-paid form between 26 June 2007 to 4 July 2007 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

As the Purchase Agreement is subject to the satisfaction of certain conditions precedent, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional advisers.

PURCHASE AGREEMENT

Date:	18 May 2007
Issuer:	The Company
Purchaser:	Deutsche Bank AG, London
	To the best knowledge, information and belief of the Directors and after making all reasonable enquiries, the Purchaser and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons
Subscription:	The Company has agreed to issue and the Purchaser has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Bonds in an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million).
Conditions precedent:	The obligation of the Purchaser to subscribe and pay for the Bonds is conditional upon, among other things,:

1) a trust deed, a paying and conversion agency agreement and any security documents in relation to the Bonds having been executed by all parties thereto;

2) the delivery to the Purchaser a copy of (a) the audited consolidated financial statements of the Group for the year ended 31 December 2006 and the audit report thereon containing no qualification, note or modification by the auditors which in the Purchaser's reasonable opinion is material and adverse in the context of the issuance of the Bonds, other than a modification report by the auditors regarding the ability of the Group to operate as a going concern due to breaches by the Company of the terms of the Syndicated Loan Agreement and the Club Loan Agreement and any qualification covering the uncertainties of outstanding liabilities of the European Subsidiaries relating to their closure, winding-up or liquidation, and (b) the unaudited consolidated accounts of the Group for the period ended 31 March 2007;

3) the delivery to the Purchaser of legal opinions in respect of several jurisdictions and such other resolutions, consents, authorities and documents relating to the issue of the Bonds;

4) the lock-up undertakings given by TCL Industries (as detailed in the paragraph headed "Undertakings" below) having been executed and in full force and effect;

5) at the Closing Date, the representations and warranties given by the Company under the Purchase Agreement remaining true and correct, the Company performing all obligations expressed to be performed by the Closing Date, and the Company delivering a compliance certificate to the Purchaser certifying, amongst other things, that there has been no notice of demand for payment or acceleration of the outstanding indebtedness under the Syndicated Loan Agreement;

6) at the Closing Date there shall not have occurred any change, development or event reasonably likely to involve a prospective change in the condition or in the earnings, prospects, operations, business or general affairs of any member of the Group which in the Purchaser's opinion is material and adverse in the context of the Bond Issue;

7) completion of the Rights Issue;

8) the indebtedness under the Club Loan Agreement having been discharged; and

9) the Shareholders having approved in the EGM the issue and allotment of the Conversion Shares.

Undertakings: TCL Industries undertakes to the Purchaser that from the date of the Purchase Agreement up to 90 days from the Closing Date, neither TCL Industries nor any person acting on its behalf will, except with prior written approval of the Purchaser,

a) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of:

   i) any of the Shares or securities exchangeable for or convertible into or exercisable for the Shares; or

   ii) warrants or other rights to purchase the Shares; or

   iii) any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares; or

b) enter into any other arrangement that transfers to others, in whole or in part, any of the economic consequences of ownership of the Shares; or

c) publicly announce any such offer, issue, sale or disposal of any Shares or securities set out in sub-paragraph (a) above; or

d) engage in any transaction, arrangement or activity having an economic effect similar to any of the activities set out in sub-paragraph (a), (b) or (c) above.

Termination: The Purchaser may at any time prior to payment of the net subscription monies for the Bonds to the Company terminate the Purchase Agreement upon occurrence of certain circumstances which include, among other things, breach of, or any event rending untrue or incorrect in any respect any of the warranties and representations contained in the Purchase Agreement or any failure by the Company to perform any of its undertakings or agreements under the Purchase Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions or currency exchange rates or foreign exchange controls which would reasonably be likely to prejudice materially the success of the transactions contemplated in the Purchase Agreement.

Closing: Subject to the above conditions, closing of the Bonds shall take place on the Closing Date, on which date the Bonds will be issued and delivered by the Company to the Purchaser.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds are summarized as follows:

Issuer: The Company

Principal amount of the Bonds: US$140 million (equivalent to approximately HK$1,095 million)

Interest: 4.5% per annum on the principal amount outstanding from time to time, payable quarterly in arrear on 31 March, 30 June, 30 September and 31 December in each year commencing on 30 September 2007

Conversion period:	Bondholder(s) may exercise Conversion Rights at any time from 30 Trading Days after the Closing Date up to the close of business on the Maturity Date or, if the Bonds shall have been called for redemption before the Maturity Date, up to the close of business on a date no later than seven Business Days prior to the date fixed for redemption. Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof.
Conversion Price:	The Conversion Price will initially be HK$0.40 per Share (subject to adjustments). The Initial Conversion Price (as at the Closing Date) of HK$0.40 per Share represents a discount of approximately 27.27% to the Closing Price of HK$0.55 per Share on the the last trading day of the Shares prior to the release of the Bonds Announcement, and a discount of approximately 30.31% and 32.32% to the average of the Closing Prices for the five and ten Trading Days ended on the the last trading day of the Shares prior to the release of the Bonds Announcement of HK$0.574 and HK$0.591 respectively. However, as the Conversion Period commences from 30 Trading Days after the Closing Date and the Initial Conversion Price is subject to the Initial Reset which will take place prior to the commencement of the Conversion Period, the effective Initial Conversion Price which will be in effect at the commencement of the Conversion Period shall be the Conversion Price as adjusted in accordance with the Initial Reset as described below (i.e. the Effective Initial Conversion Price). All the Conversion Shares are converted at a fixed rate of exchange of HK$7.82 to US$1.00.
Conversion Price Adjustments:	The Conversion Price will be subject to adjustment for, amongst other things, consolidations, subdivisions and reclassification of Shares, capitalisation of profits or reserves, distributions, rights issues, issue of securities at less than the then market price, modification of rights of conversion and other events where the Company determines that an adjustment should be made.
Initial Reset:	The Initial Conversion Price shall be adjusted on the Initial Reset Date (i.e. 26th consecutive Trading Day immediately after completion of the Rights Issue) to 115% of the Reference Price provided that such adjusted price shall in no event be less than the Initial Conversion Price.

For illustration purposes only, assuming the Volume Weighted Average Price for the period of 25 consecutive Trading Days immediately after completion of the Rights Issue is HK$0.58 or higher, the Effective Initial Conversion Price at which the Bondholders are entitled to exercise their Conversion Right from the commencement of the conversion period would be HK$0.667 per Conversion Share, being a premium of approximately 21.27% over the Closing Price of HK$0.55 on the the last trading day of the Shares prior to the release of the Bonds Announcement.

If all the Bonds are converted at the maximum Effective Initial Conversion Price of HK$0.667 each, there will be 1,641,379,310 Conversion Shares (representing approximately 42.05% and 21.90% respectively of the existing and the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming no Shares will be issued upon exercise of options under the Share Option Scheme) and full conversion of the Bonds).

If all the Bonds are converted at the Initial Conversion Price of HK$0.40 each, there will be 2,737,000,000 Conversion Shares (representing approximately 70.13% and 31.86% respectively of the issued share capital as at the Latest Practicable Date and the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming no Shares will be issued upon exercise of options under the Share Option Scheme) and full conversion of the Bonds).

Annual Reset: If the Volume Weighted Average Price for each of the 25 consecutive Trading Days immediately prior to each Annual Reset Date is less than the Conversion Price on that particular Annual Reset Date, the Conversion Price shall be adjusted on that particular Annual Reset Date to the Volume Weighted Average Price for that period, provided that the adjusted Conversion Price shall not be less than 75% of the Effective Initial Conversion Price.

If the Effective Initial Conversion Price is set at HK$0.40 per Share, the adjusted minimum Conversion Price after the Annual Reset will become HK$0.30 per Share (i.e. 75% of the minimum Effective Initial Conversion Price of HK$0.40 per Share) which is the minimum Conversion Price under any circumstances if the adjustment is arising solely from the reset mechanism. Assuming full conversion of the Bonds at such price, there will be 3,649,333,333 Conversion Shares (representing approximately 93.50% and 38.40% respectively of the issued share capital as at

	the Latest Practicable Date and the enlarged issued share capital of the Company upon completion of the Rights Issue (assuming no Shares will be issued upon exercise of options under the Share Option Scheme) and full conversion of the Bonds).
Cash Settlement Option:	At the Company's option, the Cash Settlement Amount may be delivered in lieu of the Conversion Shares upon conversion of the Bonds by the Bondholders.
Ranking of Conversion Shares:	Conversion Shares, when issued and delivered, will rank pari passu in all respects with the Shares then in issue.
Redemption at option of the Company:	On or at any time after the 2nd anniversary date of the Closing Date and prior to the Maturity Date, the Company may redeem the Bonds in whole at the Early Redemption Amount provided the Closing Prices for each of any 20 Trading Days falling within a period of 30 consecutive Trading Days was at least 130% of the Conversion Price in effect on such Trading Day, or at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.
Early redemption for taxation reasons:	The Company may redeem the Bonds in whole at the Early Redemption Amount if the Company satisfies the trustee of the Bonds that it has or will become obliged to pay additional tax in the event of certain changes in tax regulations in the Cayman Islands or Hong Kong to render the Company subject to tax for its payment to the Bondholders and such obligation cannot be avoided by the Company taking reasonable measures available to it.
Other redemption events:	Bondholders shall have the right to require the Company to redeem all or some of their Bonds at the Early Redemption Amount in the event that: 1) trading of the Shares on the Stock Exchange is suspended for a period of more than 30 consecutive Trading Days or the Shares cease to be listed or admitted to trading on the Stock Exchange; or 2) there is a Change of Control; or 3) the Closing Price for each of any 20 Trading Days falling within a period of 30 consecutive Trading Days was at least 30 % below the Conversion Price in effect on such Trading Day.

Maturity: Unless previously redeemed, converted or purchased and cancelled, each Bond shall be redeemed at 137.50% of its principal amount on the Maturity Date.

Status: The Bonds constitute direct, unsubordinated, unconditional and secured obligations of the Company and the Bonds shall at all times rank *pari passu* in all respects with the Shares then in issue and without any preference or priority among themselves. The Bonds are secured pursuant to certain charges and pledges in respect of shares of the companies listed in the paragraph headed "Security" below.

Security: First ranking and exclusive charges and pledges on all the shares held by the Group in the following subsidiaries of the Company:

1) TCL Information Technology Industrial (Group) Company Limited

2) TCL International Electronics (BVI) Limited

3) TTE Corporation

4) TCL Holdings (BVI) Limited

5) TCL Overseas Holdings Limited

6) TTE (North America) Holdings Limited

7) TTE Technology Inc.

8) TTE Belgium S.A.

all being wholly owned subsidiaries of the Company and investment holding companies holding directly or indirectly the entire operation of the Company.

Financial Covenants: The Company undertakes the following, among other things, so long as any of the Bonds remain outstanding:

1) except with prior consent by a Bondholders' Ordinary Resolution, it will not and will procure that no Subsidiary will:

a) sell any of its respective assets on terms whereby such asset is or may be leased to or re-acquired or acquired by it or another subsidiary; or sell its receivables on recourse terms except for the discounting of bills in the ordinary course of business;

b) sell, transfer, lease or otherwise dispose of all or a substantial part of its respective assets;

2) except with prior consent by a Bondholders' Ordinary Resolution, it will not and will procure that no Subsidiary will, incur or have outstanding any Financial Indebtedness other than in respect of (i) the Bonds, (ii) the Syndicated Loan Agreement, (iii) the Club Loan Agreement, (iv) Financial Indebtedness as at the issue date of the Bonds in respect of loans and advance from the shareholders and affiliated entities of the Company and from TCL Finance Co., Ltd which does not exceed US$70,700,000 and US$19,480,000 respectively, (v) Financial Indebtedness by way of cash advances, trust receipts or interest bearing accounts payable in the ordinary course of trade with an aggregate amount not exceeding US$100,000,000, (vi) Financial Indebtedness under facilities for accounts receivables financing in the ordinary and usual course of trade provided the aggregate amount for utilisation does not exceed US$130,000,000;

3) the Group will not incur capital expenditure for each period of 12 months exceeding US$50,000,000 (equivalent to approximately HK$391,000,000) in aggregate (except with prior consent by a Bondholders' Ordinary Resolution);

4) except with prior consent by a Bondholders' Ordinary Resolution, the aggregate capital expenditure by TCL Overseas Marketing (Macao Commercial Offshore) Limited, TTE Belgium S.A. and their respective subsidiaries shall not exceed 15% of the capital expenditure of the Company and its subsidiaries for each period of 12 months;

5) except with prior consent by a Bondholders' Ordinary Resolution, the aggregate operating losses of TCL Overseas Marketing (Macao Commercial Offshore) Limited, TTE Belgium S.A. and their respective subsidiaries shall not exceed US$20,000,000 for the financial year ending 31 December 2007, and shall not exceed US$10,000,000 for 2008 and US$0 for each financial year thereafter; and

6) it will not provide and extend any loans, facilities and guarantees to any person or entity who is its shareholder.

Transferability:	Subject to the terms of the Purchase Agreement, a Bond may be transferred by delivery of the certificate issued in respect thereof, with the form of transfer on the back duly completed and signed, to the registrar (or its agents) for the Bonds.
Voting rights:	Bondholders will not have any right to attend or vote in any meeting of the Company by virtue of their being Bondholders.
Listing:	The Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
Denomination:	US$10,000
Negative Pledge:	The Company undertakes that, so long as any of the Bonds remains outstanding, it will not, and will procure that none of its Subsidiaries or other persons to create, among other things, any mortgage, charge, pledge, lien or other form of encumbrance on their respective present or future undertaking, assets or revenues, or any guarantee of or indemnity to secure any Market Securities.

The terms of the Bonds were agreed after arm's length negotiation between the Company and the Purchaser.

The Company will disclose by way of an announcement all relevant details of the conversion of the Bonds in the following manner:

(i) the Company will make a monthly announcement ("Monthly Announcement") on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:

   a. whether there is any conversion of the Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of Conversion Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

   b. the amount of outstanding Bonds after the conversion, if any;

   c. the total number of new Shares issued pursuant to other transactions during the relevant month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

   d. the total issued share capital of the Company as at the commencement and the last day of the relevant months.

(ii) in addition to the Monthly Announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be) up to the date on which the total amount of Conversion Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be).

CHANGES IN SHAREHOLDING STRUCTURE UPON FULL CONVERSION OF THE BONDS AND AFTER COMPLETION OF THE RIGHTS ISSUE

Set out below is the shareholding structure of the Company upon full conversion of the Bonds after completion of the Rights Issue (assuming no Outstanding Options are exercised on or before completion of the Rights Issue):

Assuming Shareholders have taken up their respective rights and entitlements under the Rights Issue

Shareholder	As at the Latest Practicable Date		Assuming shareholders have taken up their respective rights and entitlement under the Rights Issue		Assuming full conversion of the Bonds at the maximum Effective Initial Conversion Price of HK$0.667 per Share *(Note 1)*		Assuming full conversion of the Bonds at the minimum Effective Initial Conversion Price of HK$0.40 per Share		Assuming full conversion of the Bonds at the minimum reset price of HK$0.30 per Share	
	Share	*%*	*Share*	*%*	*Share*	*%*	*Share*	*%*	*Share*	*%*
TCL Corporation and parties acting in concert with it	1,534,109,289	39.31%	2,301,163,933	39.31%	2,301,163,933	30.70%	2,301,163,933	26.78%	2,301,163,933	24.21%
Bondholders *(Note 2)*										
– the Purchaser	824,614	0.02%	1,236,921	0.02%	1,639,098,990	21.87%	2,732,371,921	31.80%	3,642,750,254	38.33%
– other than the Purchaser	–	–	–	–	3,517,241	0.05%	5,865,000	0.07%	7,820,000	0.08%
Public (other than the Bondholders)	1,981,129,729	50.76%	2,971,694,594	50.76%	2,971,694,594	39.64%	2,971,694,594	34.60%	2,971,694,594	31.27%
Public (Thomson S.A). *(Note 3)*	386,888,095	9.91%	580,332,142	9.91%	580,332,142	7.74%	580,332,142	6.75%	580,332,142	6.11%
Total issued shares	3,902,951,727	100.00%	5,854,427,590	100.00%	7,495,806,900	100.00%	8,591,427,590	100.00%	9,503,760,923	100.00%

Assuming no Shareholders (other than TCL Industries) have taken up rights and entitlements under the Rights Issue

Shareholder	As at the Latest Practicable Date		Assuming no shareholders (other than TCL Industries) have taken up rights and entitlement under the Rights Issue		Assuming full conversion of the Bonds at the maximum Effective Initial Conversion Price of HK$0.667 per Share *(Note 1)*		Assuming full conversion of the Bonds at the maximum Effective Initial Conversion Price of HK$0.40 per Share		Assuming full conversion of the Bonds at the minimum reset price of HK$0.30 per Share	
	Share	*%*	*Share*	*%*	*Share*	*%*	*Share*	*%*	*Share*	*%*
TCL Corporation and parties acting in concert with it	1,534,109,289	39.31%	3,485,585,152	59.54%	3,485,585,152	46.50%	3,485,585,152	40.57%	3,485,585,152	36.68%
Bondholders *(Note 2)*										
– the Purchaser	824,614	0.02%	824,614	0.01%	1,638,686,683	21.86%	2,731,959,614	31.80%	3,642,337,947	38.33%
– other than the Purchaser	–	–	–	–	3,517,241	0.05%	5,865,000	0.07%	7,820,000	0.08%
Public (other than the Bondholders)	1,981,129,729	50.76%	1,981,129,729	33.84%	1,981,129,729	26.43%	1,981,129,729	23.06%	1,981,129,729	20.84%
Public (Thomson S.A.) *(Note 3)*	386,888,095	9.91%	386,888,095	6.61%	386,888,095	5.16%	386,888,095	4.50%	386,888,095	4.07%
Total issued shares	3,902,951,727	100.00%	5,854,427,590	100.00%	7,495,806,900	100.00%	8,591,427,590	100.00%	9,503,760,923	100.00%

Notes:

1. Assuming the Volume Weighted Average Price of the Share for the 25 consecutive days ending the Initial Reset Date being not less than HK$0.58, the Reference Price is therefore HK$0.58 and the Conversion Price will be HK$0.667 (i.e., 115% of the Reference Price).

2. The Purchaser under the Purchase Agreement agrees to subscribe and pay for, or to procure subscribers to subscribe and pay for the Bonds. The Purchaser confirms that it has already procured independent investors to subscribe for Bonds in principal amount of at least US$300,000 (equivalent to HK2,346,000). On conversion of the Bonds by such independent investors, they will also be regarded as public Shareholders.

3. The shareholding of Thomson S.A. in the Company has since 29 May 2007 fallen below 10% and therefore Thomson S.A. is regarded as a public Shareholder.

Shareholders and public investors should note that the above shareholding changes are for illustration purposes only and the actual changes in the shareholding structure of the Company upon completion of the Rights Issue and full conversion of the Bonds are subject to various factors, including the results of acceptance of the Rights Issue.

Application for listing of the Rights Shares and the Conversion Shares on the Stock Exchange

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

Subject to the grant of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

None of the securities of the Company is listed or dealt in any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Nil-paid Rights Shares are expected to be traded in board lots of 2,000 (Shares are currently traded in board lots of 2,000). Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on 18 July 2007.

No application will be made for listing of, or permission to deal in, the Bonds to the Stock Exchange or any other stock exchange.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued pursuant to the Bonds.

Reasons for the Rights Issue and the Bond Issue and the use of proceeds

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 net proceeds from the Rights Issue (assuming no Outstanding Options are exercised prior to the Record Date) after deducting for expenses are estimated to be approximately HK$773.9 million. The Company intends to use approximately HK$390.0 million for partial repayment of syndicated loans, if required, otherwise this amount will be used for general working capital of the Group, and retain the remaining balance of approximately HK$383.9 million for general working capital of the Group.

The net proceeds from the Bond Issue, after deducting expenses and fees, are estimated to be approximately HK$1,060 million. The Company intends to apply approximately HK$713.5 million for the partial repayment of the outstanding indebtedness under the Syndicated Loan Agreement and the remaining balance of approximately HK$346.5 million for the Company's working capital purposes.

The Rights Issue and the conversion of the Bonds into Conversion Shares will enlarge the capital base of the Company and the Directors consider that it will facilitate the long-term development of the Company. Taking into account the fact that the net proceeds from the Rights Issue and the Bonds Issue would improve the Group's gearing position and enhance the Company's capital base, the Directors are of the view that the terms of the Rights Issue and the Bonds Issue are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

Save for the Rights Issue and the Bond Issue, the Company did not carry out any other issue of equity securities for fund raising purpose within the past 12-month period immediately preceding the date of the Rights Issue Announcement.

The Underwriter has no intention to make any changes to the Group's existing principal businesses, the deployment of the Company's fixed assets and the continued employment of the employees of the Group.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE AND PAYMENT FOR THE RIGHTS SHARES

If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on the latest date for acceptance of and payment for the Rights Shares at any local time between 12:00 noon and 4:00 p.m., the Latest Acceptance Time will be postponed to 4:00 p.m. on the following Business Day, which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m. Accordingly, the dates subsequent to the expected date of the Latest Acceptance Time mentioned in the section headed "Expected timetable for the Rights Issue" in this circular may be affected. A press announcement will be made by the Company in such event as soon as practicable.

WHITEWASH WAIVER

If no Qualifying Shareholder (other than TCL Industries and parties acting in concert with it) takes up any Rights Shares under the Rights Issue, 1,195,415,219 Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date) or 1,262,950,219 Rights Shares (assuming all Outstanding Options are exercised on or before the Record Date) will be allocated to TCL Industries pursuant to the Underwriting Agreement. In such event, TCL Industries and parties acting in concert with it will hold 3,485,585,152 Shares (assuming no Outstanding

Options are exercised on or before the Record Date) or 3,561,250,152 Shares (assuming all Outstanding Options are exercised on or before the Record Date), representing approximately 59.54% and 58.80% respectively of the issued share capital of the Company as enlarged by the issue of the Rights Shares.

Parties acting in concert with TCL Industries hold Outstanding Options to subscribe for 8,130,000 Shares, of which (i) Outstanding Options to subscribe for 5,000,000 Shares are held by Mr. Li Dongsheng, a Director and director of TCL Industries and TCL Corporation; (ii) Outstanding Options to subscribe for 2,500,000 Shares are held by Ms Lu Zhongli, a Director and director of TCL Industries; (iii) Outstanding Options to subscribe for 330,000 Shares are held by Mr. Yuan Bing, a Director and director of TCL Industries; and (iv) Outstanding Options to subscribe for 300,000 are held by Mr. Hon Fongming, a director of TCL Corporation, and have indicated that they will not exercise their Outstanding Options on or before the Record Date.

In the event that the Underwriter is called upon to subscribe for the Rights Shares in full pursuant to its obligations under the Underwriting Agreement, the interest of the Underwriter and parties acting in concert with it in the Company will increase from approximately 39.31% to a maximum of approximately 59.54% of the Company's issued share capital immediately upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming no Outstanding Options are exercised on or before the Record Date). Accordingly, the underwriting of the Rights Issue by the Underwriter may trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code for all the Shares not held by the Underwriter and persons acting in concert with it.

A formal application has been made by TCL Industries to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders by way of poll at the EGM.

Based on the shareholding structure of the Company as at the Latest Practicable Date, the voting rights of TCL Industries and parties acting in concert with it immediately upon completion of the Rights Issue (assuming no exercise of the Conversion Rights of the Bonds) may exceed 50% of the total outstanding voting rights of the Company. In such circumstances, thereafter TCL Industries and parties acting in concert with it may increase their shareholding interest in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer for the Shares. However, the interest of TCL Industries and parties acting in concert with it in the Company may drop below 50% if the Bondholders exercise the Conversion Rights attached to the Bonds.

It is a condition precedent to the completion of the Rights Issue that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Rights Issue will not proceed. In any event, the Underwriter will not be required to make a mandatory general offer under Rule 26 of the Takeovers Code as a result of the Rights Issue will not be triggered.

DEALINGS OF THE SHARES BY TCL INDUSTRIES AND ITS CONCERT PARTIES AND OTHER MISCELLANEOUS MATTERS

TCL Industries and parties acting in concert with it had not dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company during the six months period immediately prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

As at the Latest Practicable Date, other than approximately 39.31% of the issued share capital of the Company beneficially owned by TCL Industries and parties acting in concert with it and the Outstanding Options attaching subscription rights to subscribe for 8,130,000 Shares held by the parties acting in concert with TCL Industries, (a) TCL Industries and parties acting or presumed to be acting in concert with it do not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company; (b) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to shares of TCL Industries or the Company and which may be material to the Rights Issue and the Whitewash Waiver; and (c) there are no agreements or arrangements to which TCL Industries is a party which related to the circumstances in which it may or may not invoke or seek to invoke a precondition or a condition to the Rights Issue and the Whitewash Waiver, other than the transactions contemplated under the Underwriting Agreement and as disclosed in this circular.

PROPOSED INCREASE IN THE AUTHORIZED SHARE CAPITAL OF THE COMPANY

In connection with the Rights Issue and the issue of the Conversion Shares, the Company proposes to seek the approval of the Shareholders to increase its authorized share capital from HK$800,000,000 to HK$2,200,000,000 by the creation of an additional 14,000,000,000 new Shares in order to have sufficient authorized share capital to satisfy the issue of the Conversion Shares and to provide for further flexibility and accommodate future growth of the Group.

EGM

The Company will convene the EGM at Gloucester Room, 2nd Floor, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on 21 June 2007 at 2:30 p.m. at which ordinary resolutions will be proposed for the purpose of considering and, if thought fit, approving (i) the Whitewash Waiver by the Independent Shareholders by way of poll; (ii) the increase in the authorized share capital by the Shareholders and (iii) the issue of the Convertible Bonds and the issue and allotment of the Conversion Shares upon conversion of the Convertible Bonds by the Shareholders. The notice of the EGM is set out on pages 179 to 180 of this circular. TCL Industries and parties acting in concert with it and Shareholders who are involved in or interested in the Underwriting Agreement, the Rights Issue and the Whitewash Waiver will abstain from voting on the relevant resolution to approve the Whitewash Waiver. No Shareholder is required to abstain from voting in respect of the resolution(s) for approving the increase in the authorized share capital and the issue and allotment of the Convertible Bonds and the Conversion Shares.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjournment of it if you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 38 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the Whitewash Waiver.

Your attention is also drawn to the letter from Taifook Capital Limited set out on pages 39 to 58 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
TCL Multimedia Technology Holdings Limited
Li Dongsheng
Chairman

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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

5 June 2007

To the Independent Shareholders

(1) PROPOSED RIGHTS ISSUE OF NOT LESS THAN 1,951,475,863 RIGHTS SHARES AND NOT MORE THAN 2,019,010,863 RIGHTS SHARES OF HK$0.1 EACH AT HK$0.40 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF 1 RIGHTS SHARE FOR EVERY 2 EXISTING SHARES HELD ON THE RECORD DATE); (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) INCREASE OF THE AUTHORIZED SHARE CAPITAL AND ALLOTMENT OF THE CONVERSION SHARES IN RELATION TO THE PROPOSED ISSUE OF 4.5% CONVERTIBLE BONDS DUE 2012

We refer to the letter from the Board set out in the circular dated 5 June 2007 (the "Circular") of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Whitewash Waiver and to advise the Independent Shareholders as to whether the terms of the Whitewash Waiver are fair and reasonable and whether the Whitewash Waiver is in the interests of the Independent Shareholders and to recommend whether the Independent Shareholders should vote in favour of the ordinary resolution to be proposed at the EGM to approve the Whitewash Waiver. Taifook Capital Limited has been appointed to advise the Independent Board Committee in relation to the Whitewash Waiver and the appointment has been approved by the Independent Board Committee.

We wish to draw your attention to the letter from the Board and the letter from the Taifook Capital Limited to the Independent Board Committee which contains its advice to us in relation to the Whitewash Waiver as set out in the Circular.

Having taken into account the principal factors and reasons considered by, and the opinion of, Taifook Capital Limited as stated in its letter of advice as set out on pages 39 to 58 of the Circular, we consider the terms of the Whitewash Waiver are fair and reasonable and the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee

Tang Guliang	**Wang Bing**	**Robert Maarten Westerhof**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of a letter from Taifook Capital Limited to the Independent Board Committee, which has been prepared for the purpose of inclusion in this circular.

TAI FOOK CAPITAL LIMITED

25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

5 June 2007

To the Independent Board Committee
TCL Multimedia Technology Holdings Limited

Dear Sirs,

THE WHITEWASH WAIVER FOR THE RIGHTS ISSUE

We refer to our appointment as the independent financial adviser to the Independent Board Committee with respect to the Whitewash Waiver, details of which are set out in the "Letter from the Board" of the circular issued by the Company dated 5 June 2007 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

On 15 May 2007, the Company proposed to raise not less than approximately HK$780.6 million and not more than approximately HK$807.6 million before expenses by way of a rights issue of not less than 1,951,475,863 Rights Shares and not more than 2,019,010,863 Rights Shares at a price of HK$0.4 per Rights Share on the basis of one Rights Share for every two existing Shares held on the Record Date. The Rights Shares will be fully underwritten by TCL Industries, based on the terms and conditions of the Underwriting Agreement.

In the event that TCL Industries is called upon to subscribe for the Rights Shares in full pursuant to its obligations under the Underwriting Agreement, the voting rights of TCL Industries and parties acting in concert with it in the Company will increase from approximately 39.31% to (i) approximately 59.54% upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming none of the Outstanding Options are exercised on or before the completion of the Rights Issue); and (ii) approximately 58.80% upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming all Outstanding Options are exercised on or before the completion of the Rights Issue). Accordingly, the underwriting by TCL Industries of the Rights Issue may trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code for all the securities of the Company not already held by TCL Industries and parties acting in concert with it.

A formal application has been made by TCL Industries to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. TCL Industries and parties acting in concert with it and any of their respective associates and any other Shareholders who are involved in or interested in the Underwriting Agreement, the Rights Issue and the Whitewash Waiver shall abstain from voting on the proposed resolution in the EGM. The Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders by poll at the EGM pursuant to the requirements of the Takeovers Code.

It is a condition precedent to the Rights Issue that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon is not fulfilled, the Rights Issue will not proceed. In any event, TCL Industries will not be required to make a mandatory general offer under Rule 26 of the Takeovers Code as a result of the Rights Issue.

In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Whitewash Waiver are fair and reasonable and are in the interests of the Independent Shareholders and as to how to recommend the Independent Shareholders to vote at the EGM.

The Independent Board Committee comprising Mr. Tang Guliang, Mr. Wang Bing and Mr. Robert Maarten Westerhof, being the independent non-executive Directors, has been formed to provide recommendations to the Independent Shareholders in respect of the terms of the Whitewash Waiver. As Mr. Albert Thomas da Rosa, Junior, a non-executive Director, is also a partner of Cheung, Tong & Rosa, the legal advisers to the Company as to Hong Kong law, the Company considers that to avoid any potential conflict of interests, Mr. Albert Thomas da Rosa, Junior should not be a member of the Independent Board Committee.

Mr. Wong Toe Yeung, Chambers, an ex-executive director of TCL Communication Technology Holdings Limited (Stock Code: 2618; "TCL Communication"; being a subsidiary of TCL Industries) resigned on 8 June 2006, has maintained a stock brokerage account in Taifook Securities Company Limited ("Taifook Securities"), which is our fellow subsidiary. Such account was dormant in the past two years. Taifook Securities also held 1.8 million shares in TCL Communication as at the Latest Practicable Date. We consider that the above matters will not affect our independency in giving advice to the Independent Board Committee in relation to the Whitewash Waiver given that (i) the provision of stock brokerage service to Mr. Wong Toe Yeung, Chambers by Taifook Securities is in its ordinary and usual course of business; and (ii) the total value of the shares in TCL Communication is insignificant to the consolidated total assets of Taifook Securities Group Limited (our holding company whose issued shares are listed on the main board of the Stock Exchange; Stock Code: 665) and its subsidiaries.

BASES AND ASSUMPTIONS

In formulating our recommendation, we have relied on the financial and other information and facts supplied to us and representations expressed by the Directors and/or the Group's senior management and have assumed that all such financial and other information, facts and any representations made to us, or referred to in the Circular, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the Group's senior management. We have also assumed that the financial and other information, facts and any representations made to us or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular. We have been advised by the Directors and/or the Group's senior management that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the information provided by the Group as set out below:

(i) the annual reports of the Company for each of the years ended 31 December 2004, 2005 and 2006;

(ii) the announcement dated 27 October 2006 issued by the Company;

(iii) the results announcement of the Company for the three months ended 31 March 2007 issued on 31 May 2007;

(iv) the Circular; and

(v) the report headed "Displaysearch Quarterly Global TV Shipment and Forecast Report 2007Q1" issued by Display Search in 2007, an independent market research and consulting company on the flat panel displays with headquarters in the United States.

We have also discussed with the Directors and/or the Group's senior management with respect to the terms of, and reasons for the Rights Issue, the Underwriting Agreement and the Whitewash Waiver, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Whitewash Waiver, we have considered the following principal factors and reasons:

I. THE RIGHTS ISSUE

1. Background and reasons for the Rights Issue

(A) Background of the Group

The Group is principally engaged in the (i) manufacture and sales of colour television sets, and trading of related components; and (ii) manufacture and sales of other audio-visual products. The Group's colour television sets are sold under different brands in different regions, namely "TCL" in the PRC and the emerging markets (including Australia, India, Indonesia, Philippines, Thailand, Mexico and Vietnam), "Thomson" in Europe and "RCA" in the North America. The Group is also engaged in the original equipment manufacturing ("OEM") business of colour television sets.

In 2004, TTE Corporation ("TTE"), a joint venture which was then beneficially owned as to 67% by the Company and 33% by Thomson S.A. (a company incorporated under the laws of France, whose shares are listed on the Premier Marché of Euronext Paris S.A. and on the New York Stock Exchange in the form of American depository shares) was established to facilitate the Group's geographical expansion into Europe and North America through the brands of "Thomson" and "RCA" respectively and the merger of the television related businesses and assets of the Group and Thomson S.A. TTE became a wholly-owned subsidiary of the Company subsequently in August 2005.

For the years ended 31 December 2004, 2005 and 2006, the Group's turnover of television sets and related components amounted to approximately HK$21,795 million, HK$29,938 million and HK$26,368 million respectively, representing more than 85% of the total turnover of the Group during the respective years. Its remaining turnover was generated from the sales of audio-visual products and the sales of computer related products which were discontinued in September 2006.

Set out below is the analysis of Group's turnover (as shown in the paragraph headed "Historical financial performance of the Group" below) by geographical segments during the three years ended 31 December 2006:

	For the year ended 31 December					
	2004		2005		2006	
	Turnover *(in HK$' million)*	%	Turnover *(in HK$' million)*	%	Turnover *(in HK$' million)*	%
PRC	12,955	50.6%	11,166	34.4%	10,657	36.5%
Europe (Note)	4,744	18.5%	7,869	24.2%	3,879	13.3%
North America (Note)	3,554	13.9%	6,793	20.9%	6,553	22.5%
Other regions	4,347	17.0%	6,672	20.5%	8,098	27.7%
Total	25,600	100.0%	32,500	100.0%	29,187	100.0%

Note: *The growth in turnover in Europe and North America for the year ended 31 December 2005 was mainly due to the fact that the results of TTE, which commenced operations in August 2004, were not consolidated in the Group's results on a full year basis for the year ended 31 December 2004.*

(B) The industry environment of television sets

Based on the report from Display Search, in 2006, approximately 46.0 million units of liquid crystal display televisions (the "LCD televisions"), approximately 9.2 million units of plasma televisions, approximately 4.0 million units of projection televisions and approximately 129.9 million units of cathode ray tube televisions (the "CRT televisions") were sold in the world. In 2006, global sales of LCD televisions, plasma televisions, projection televisions and CRT televisions amounted to approximately US$49,087 million, US$18,486 million, US$6,863 million and US$26,476 million respectively, representing approximately 48.7%, 18.3%, 6.8% and 26.2% of the global sales of televisions respectively. Global sales values of projection televisions and CRT televisions in 2006 decreased by approximately 21.6% and 15.2% from the respective global sales values in 2005 whereas global sales values of LCD televisions and plasma televisions in 2006 increased by approximately 92.7% and 22.1% from the respective global sales values in 2005.

Based on the report from Display Search for the television industry, in 2006, (i) the brand of "TCL" had the largest market share in the PRC market, which captured approximately 14.7% of sales revenue and approximately 17.5% of unit sales in the PRC market; (ii) the brand of "Thomson" captured approximately 2.4% of sales revenue and approximately 4.9% of unit sales in the European market respectively, and was ranked 8th and 6th in terms of sales revenue and unit sales respectively in the European market; and (iii) the brand of "RCA" captured approximately 3.7% of sales revenue and approximately 8.8% of units sales in the North American market, and was ranked 10th and 4th in terms of sales revenue and unit sales respectively in the North American market.

(C) Historical financial performance of the Group

Set out below is a summary of the audited consolidated results of the Group for the three years ended 31 December 2006 and the unaudited consolidated results of the Group for the three months ended 31 March 2006 and 2007:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Audited) (Restated)	(Audited) (Restated)	(Audited)	(Unaudited)	(Unaudited)
Continuing operations					
Turnover	25,599,840	32,499,945	29,186,823	7,515,573	5,019,026
Gross profit	4,374,537	5,459,711	4,496,168	1,244,143	915,321
Profit/(loss) from operating activities	489,053	(330,464)	(1,436,687)	(37,368)	7,161
Fair value losses of equity investments at fair value through profit or loss/ impairment of short-term investments	(29,026)	(95,083)	(37,653)	(8,601)	–
Amortisation of goodwill on acquisition of jointly-controlled entities	(57,321)	–	–	–	–
Costs in connection with the restructuring and winding down of the European business	–	–	(694,868)	–	–
Finance costs	(65,715)	(162,239)	(245,622)	(63,023)	(43,256)
Share of profits and losses of jointly-controlled entities/an associate	80,464	9,212	3,519	(399)	(1,237)
Profit/(loss) before tax	417,455	(578,574)	(2,411,311)	(109,391)	(37,332)
Tax	(129,511)	(107,311)	(96,523)	(39,657)	(28,694)
Profit/(loss) for the year from continuing operations	287,944	(685,885)	(2,507,834)	(149,048)	(66,026)
Discontinued operation					
Profit/(loss) for the year from a discontinued operation *(Note)*	–	(17,382)	7,362	11,194	–
– Minority interests	21,041	104,374	3,158	(1,274)	(1,254)
Net profit/(loss) attributable to the Shareholders	308,985	(598,893)	(2,497,314)	(139,128)	(67,280)

Note: The Group discontinued its personal computer business in September 2006. The information on the discontinued operation of the Group for the year ended 31 December 2004 has not been separately disclosed in the consolidated financial statements of the Group for that year.

(i) Turnover analysis

Turnover of the Group increased from approximately HK$25,600 million for the year ended 31 December 2004 to approximately HK$32,500 million for the year ended 31 December 2005, representing an increase of approximately 27.0%. As referred to in the annual report of the Company for the year ended 31 December 2005, the increase in turnover was mainly attributable to (i) the contribution of the sales of "Thomson" and "RCA" brands televisions in Europe and North America respectively to the Group for the year ended 31 December 2005, being TTE's first full year of operations; and (ii) the growth of sales of "TCL" brand televisions in the emerging markets.

For the year ended 31 December 2006, turnover of the Group decreased from approximately HK$32,500 million for the year ended 31 December 2005 to approximately HK$29,187 million, representing a decrease of approximately 10.2%. As referred to in the annual report of the Company for the year ended 31 December 2006, the decrease in turnover was mainly attributable to (i) fierce competition in the PRC which led to rapid price declines in all product categories and delay of purchase of customers expecting further price reductions; and (ii) the Group's implementation of a restructuring plan to close down certain loss-making business lines in Europe as detailed below. The turnover of the Group for the three months ended 31 March 2007 decreased as compared with that for three months ended 31 March 2006, which was also mainly due to the aforesaid two reasons.

(ii) Consolidated gross profit analysis

The Group recorded consolidated gross profits of approximately HK$4,375 million, HK$5,460 million and HK$4,496 million for the years ended 31 December 2004, 2005 and 2006 respectively. The gross profit margin of the Group decreased from approximately 17.1% during the year ended 31 December 2004 to approximately 16.8% during the year ended 31 December 2005, and then decreased to approximately 15.4% during the year ended 31 December 2006. As referred to in the annual report of the Company for the year ended 31 December 2005, the decrease in gross profit margin for that year was mainly attributable to keen competition and product price reduction across different markets. As advised by the Directors, the decrease in gross profit margin for the year ended 31 December 2006 was mainly attributable to the Group's increase of the sales of high-end televisions such as LCD televisions, the gross profit margin of which was generally lower than that of CRT televisions because of higher cost of materials such as LCD panels.

For the three months ended 31 March 2006 and 2007, the Group recorded consolidated gross profits of approximately HK$1,244 million and HK$915 million respectively. Such decrease was the result of the decrease in turnover. The gross profit margin of the Group, however, increased from approximately 16.6% for the three months ended 31 March 2006 to approximately 18.2% for the three months ended 31 March 2007, which was mainly due to the wind-down of the Group's operation in Europe since October 2006 which yielded relatively lower gross profit margin as compared with other markets of the Group. Details of the restructuring plan of the Group's business in Europe are set out below.

(iii) Consolidated net profit/loss analysis

For the year ended 31 December 2004, the audited consolidated net profit attributable to the Shareholders amounted to approximately HK$309 million. The results of the Group for the year ended 31 December 2005 was not satisfactory notwithstanding that the Group's turnover increased in 2005. For the year ended 31 December 2005, the audited consolidated net loss attributable to the Shareholders amounted to approximately HK$599 million as a result of the Group's operating losses in the television businesses in Europe and North America due to keen competition and product price reduction. In addition, As referred to in the annual report of the Company for the year ended 31 December 2005, the costs of the Group were also driven up significantly by non-operating factors during the year ended 31 December 2005, including (i) higher finance costs of approximately HK$162.2 million due to higher debt level; (ii) impairment of approximately HK$22.9 million of short-term investments in the shares of TCL Communication; (iii) fair value loss of approximately HK$72.2 million of a call option granted by Thomson S.A. to the Company to subscribe for certain shares in Thomson S.A.; and (iv) expenses of approximately HK$28.7 million charged for the grant of employee share options under new accounting standards. The combined effect of the aforesaid factors amounted to approximately HK$286 million for the year ended 31 December 2005.

As advised by the Directors, the Group recorded an audited consolidated net loss attributable to the Shareholders of approximately HK$2,497 million for the year ended 31 December 2006 which was mainly due to (i) the decrease in gross profit margin due to intense competition and increase in sales of high-end televisions which were of lower profit margin; (ii) the substantial operating losses in the television business in Europe; (iii) the substantial costs in connection with the restructuring and winding down of the Europe business; and (iv) the substantial finance costs due to higher average debt balances during the year.

For the three months ended 31 March 2006 and 2007, the Group recorded net loss attributable to the Shareholders of approximately HK$139 million and HK$67 million respectively. Such decrease was primarily as a result of the improvement in gross profit margin with reasons as stated above and the reduction of finance costs arising from the repayment of borrowings.

(D) Restructuring of the Group's Business in Europe

As referred to in the announcement dated 27 October 2006 issued by the Company, the Group has embarked on a restructuring plan (the "Restructuring Plan") pursuant to an agreement dated 12 October 2006 entered into between, among others, the Company, Thomson S.A. and TTE. The Restructuring Plan, which took effect from October 2006, involved:

(i) the amicable wind-down of the activities of TTE Europe SAS ("TTE Europe"), an indirect wholly-owned subsidiary of the Company and a major subsidiary of the Group in Europe, commenced in the last quarter of 2006. Such wind-down includes the restructuring of the majority of TTE Europe's current employee base in Europe devoted to Europe commercial activities and winding-up of most of its current operations. The wind-down covers substantially all the activities related to sale and marketing of TV products (excluding OEM business) of the Group in Europe; and

(ii) in order to maintain the Group's presence in Europe, the Group will pursue a new business model that will expand the Group's existing OEM business serving European customers. As compared with the old business model, this will be a huge simplification of operation, and the new operation will have a much simpler supply chain and lean and efficient organisation in Europe.

In addition, as referred to in the announcement dated 27 October 2006 issued by the Company, it is the Directors' plan that the majority of support services for the European operations will be based in Hong Kong and PRC. It is expected that the business of the Group in areas other than Europe, such as the PRC and North America, will not be affected as a result of the Restructuring Plan. The Directors believe that as a result of the Restructuring Plan, much less financial resources will be required for its loss-making European operations, and the Group can focus and utilise its resources in other geographical regions in which it operates, being the PRC, North America and the emerging markets.

(E) Financial position of the Group

Set out below is a summary of the major assets and liabilities of the Group as at 31 March 2007:

	As at 31 March 2007 (unaudited) *(HK$' 000)*
Non-current assets	2,720,005
Current assets	6,876,498
Current liabilities	(7,907,915)
Net current liabilities	(1,031,417)
Non-current liabilities	(45,077)
Net assets	1,643,511

As at 31 March 2007, the Group had net current liabilities of approximately HK$1,031 million which included long term bank loans of approximately HK$1,103 million (the "Syndicated Loans") being reclassified as current liabilities due to the breach of certain financial covenants of the relevant bank loan agreements. Total interest-bearing bank and other borrowings of the Group decreased to approximately HK$2,203 million as at 31 March 2007 from approximately HK$2,661 million as at 31 December 2006 after repayment of borrowings by the Group.

(F) Rationale of the Rights Issue

As stated in the "Letter from the Board" of the Circular, the net proceeds from the Rights Issue after deducting the expenses are estimated to be approximately HK$773.9 million. The Company intends to use approximately HK$390.0 million for partial repayment of Syndicated Loans and retain the remaining balance of approximately HK$383.9 for the Group's general working capital. Taking into account that the net proceeds from the Rights Issue would improve the Group's gearing position and would enhance the Company's capital base, the Directors are of the view that the Rights Issue is in the interests of the Group and the Independent Shareholders as a whole.

We note that (i) the Group has continuously recorded net losses over the past two years ended 31 December 2006 and the three months ended 31 March 2007; (ii) cash flow from operations were negative during the past two years; (iii) as at 31 March 2007, the Group had unaudited net current liabilities of approximately HK$1,031 million; and (iv) as at 31 March 2007, the Group had the Syndicated Loans of approximately HK$1,103 million, certain financial covenants of which have been breached. Accordingly, we consider the Rights Issue to be in the interests of the Group and the Independent Shareholders as a whole.

(G) Other financing alternatives

As advised by the Directors, they have considered alternative means of financing other than a rights issue, including arrangement of new bank loans, private placements, and open offer. However, considering the Group's current financial position and gearing ratio, the Directors believe that taking on additional bank borrowings would be impracticable. Private placements of new shares, open offer, and rights issue are common means of equity financing. The Directors consider that a private placement of Shares by its nature excludes existing Shareholders, and at the same time, results in dilution of existing Shareholders' interests.

Both open offer and rights issue render all the Shareholders equal opportunities to participate in the enlargement of the capital base of the Company and allow them to maintain their proportionate interests in the Company. Comparing with an open offer, a rights issue provides additional benefit to the Shareholders in that it allows the Shareholders who do not wish to participate in the fund raising of the Company to dispose of their entitlements in the market, subject to market conditions.

Based on the aforesaid, we concur with the Directors' view that the Rights Issue is an acceptable means to raise funds for the Company to improve the Group's financial position.

(H) The Bond Issue

In addition to the Rights Issue, on 18 May 2007, the Company and the Purchaser entered into the Purchase Agreement pursuant to which, subject to certain conditions, the Company agreed to issue and the Purchaser agreed to subscribe and pay for, or procure subscribers to subscribe and pay for, the Bonds in the principal amount of US$140 million (equivalent to approximately HK$1,095 million). Details of the issue of the Bonds are set out in the "Letter from the Board" of the Circular.

2. Subscription Price

The Company will provisionally allot one Rights Share for every two Shares held by the Qualifying Shareholders on the Record Date at a price of HK$0.4 per Rights Share.

The Subscription Price represents:

(i) a discount of approximately 37.5% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 35.5% to the average closing price of approximately HK$0.62 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;

(iii) a discount of approximately 35.5% to the average closing price of approximately HK$0.62 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 40.3% to the closing price of HK$0.67 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

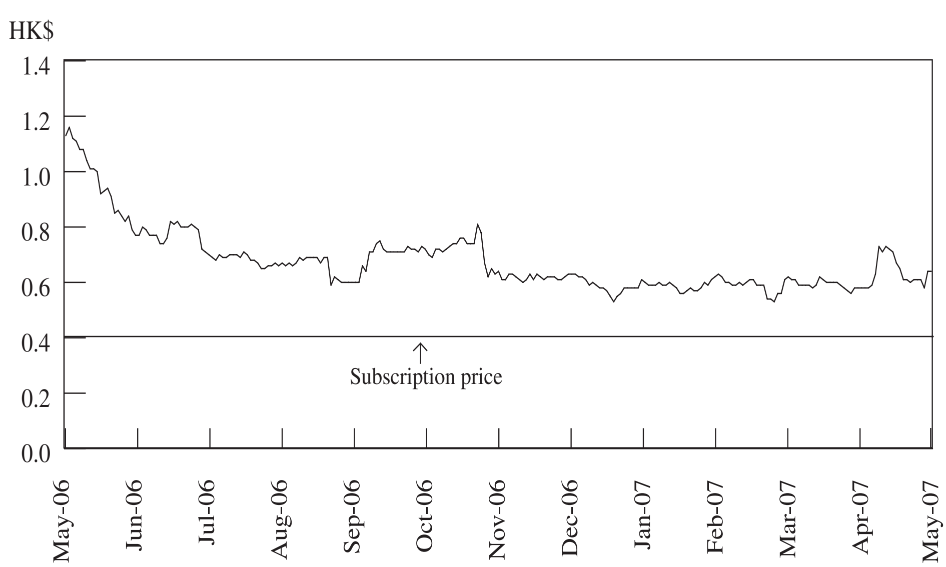
(v) a discount of approximately 28.6% to the theoretical ex-right price of approximately HK$0.56 per Share based on the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Last Trading Date;

(vi) a discount of approximately 31.0% to the theoretical ex-right price of approximately HK$0.58 per Share based on the closing price of HK$0.67 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(vii) a premium of approximately 10.5% over the audited consolidated net tangible assets value per Share of approximately HK$0.362 as at 31 December 2006; and

(viii) a premium of approximately 14.3% over the unaudited consolidated net tangible assets value per Share of approximately HK$0.35.

Set out below is the graph showing the closing prices of the Shares quoted on the Stock Exchange for the period from 16 May 2006 up to 15 May 2007, being one-year period prior to the date on which the Rights Issue was announced (the “Review Period”):



Source: Bloomberg

During the Review Period, the Shares have traded above the Subscription Price, ranging between HK$0.53 and HK$1.16. Furthermore, following the announcement of the Rights Issue and up to the Latest Practicable Date, the closing price of the Shares ranged between HK$0.55 to HK$0.68.

In order to enhance the attractiveness of a rights issue exercise, it is the market practice that the subscription price of a rights issue represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with the normal market practice.

We have reviewed 13 rights issues which have been announced for the period from 16 November 2006 to 15 May 2007, being six-month period prior to the date on which the Rights Issue was announced, by companies listed on the main board of the Stock Exchange (the "Comparable Issues"), details of which are set out below:

Company	Date of announcement	Underwriting commission	Basis of entitlement	Discount of subscription price to the closing price on the last trading date	Discount of subscription price to the theoretical ex-rights price
		%		%	%
Sun East Technology (Holdings) Limited (Stock Code: 365)	17 November 2006	2.5	2 for 5	(42.86)	(34.89)
Radford Capital Investment Limited (Stock Code: 901)	1 December 2006	2.0	1 for 2	(49.37)	(39.39)
SunCorp Technologies Limited (Stock Code: 1063)	11 December 2006	Not disclosed	1 for 2	(63.41)	(53.63)
Kowloon Development Company Limited (Stock Code: 34)	19 December 2006	1.5	1 for 2	(14.07)	(9.86)
Lung Cheong International Holdings Limited (Stock Code: 348)	21 December 2006	Nil	1 for 2	(28.60)	(20.90)
China Chengtong Development Group Limited (Stock Code: 217)	9 January 2007	2.5	3 for 10	(42.10)	(35.90)
Capital Estate Limited (Stock Code: 193)	26 January 2007	2.0	5 for 1	(80.88)	(40.90)
Bestway International Holdings Limited (Stock Code: 718)	5 February 2007	1.5	1 for 2	(39.60)	(30.40)
China Treasure (Greater China) Investments Limited (Stock Code: 810)	12 February 2007	2.5	9 for 1	(97.50)	(79.59)
Unity Investments Holdings Limited (Stock Code: 913)	12 March 2007	2.5	10 for 1	(76.19)	(22.54)
See Corporation Limited (Stock Code: 491)	13 March 2007	2.5	4 for 1	(73.00)	(35.10)
Freeman Corporation Limited (Stock Code: 279)	23 March 2007	2.5	1 for 2	(45.70)	(35.83)
Pacific Andes International Holdings Limited (Stock Code: 1174)	23 March 2007	Not disclosed	1 for 2	(34.30)	(25.80)
Minimum		**Nil**		**(14.07)**	**(9.86)**
Maximum		**2.5**		**(97.50)**	**(79.59)**
Mean		**2.0**		**(52.89)**	**(35.75)**
The Company		**Nil**	**1 for 2**	**(37.5)**	**(28.6)**

Source: The Stock Exchange

As shown in the above table, the subscription prices of the Comparable Issues were set at discounts to their respective closing prices on their respective last trading dates immediately prior to the release of the relevant announcements, with a mean discount of approximately 52.9%. Such subscription prices also represented discounts from the theoretical ex-rights prices per share based on the respective closing prices per share on the Last Trading Date immediately before the relevant announcements were released, with a mean discount of approximately 35.8%.

We note that the discount of the Subscription Price to the closing price of the Shares of 37.5% as at the Last Trading Date is smaller than the mean discount of those of the Comparable Issues of approximately 52.9%. In addition, the discount of the Subscription Price to the theoretical ex-rights price of the Shares of 28.6% is smaller than the mean discount of those of the Comparable Issues of approximately 35.8%. Accordingly, we consider the Subscription Price to be fair and reasonable and in-line with normal industry practice.

3. Underwriting arrangements

Pursuant to the Underwriting Agreement, TCL Industries agreed to underwrite not less than 1,195,415,219 Rights Shares and not more than 1,262,950,219 Rights Shares, and it will not receive any underwriting commission.

According to the table above, the underwriting commission of the Comparable Issues ranged from nil to 2.5%. Given that TCL Industries will not receive any underwriting commission pursuant to the Underwriting Agreement, the Directors consider that it would reduce the expenses in connection with the Rights Issue. Accordingly, we consider that the underwriting arrangements of the Rights Issue to be acceptable.

4. Dilution effect on shareholding interests of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders who do not exercise their rights to subscribe for the Rights Issue in full, depending on the extent to which they take up their entitlements, their shareholding interests will be diluted up to a maximum of approximately 33% (assuming no Outstanding Options are exercised before the Record Date). It should be noted that such Shareholders will have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market, subject to the then prevailing market conditions, and the Shareholders who have disposed of their nil-paid rights will not be able to subscribe for the Rights Shares.

For the Excluded Shareholders, they will not be entitled to the Rights Issue. The shareholding interests of the Excluded Shareholders will be diluted by approximately 33% (assuming no Outstanding Options are exercised before the Record Date). Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the open market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of more than HK$100 will be paid pro rata to the relevant Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of HK$100 or less for its own benefit.

Meanwhile, Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional nil-paid rights in the market. The Qualifying Shareholders may also apply for excess Rights Shares.

5. Financial effects of the Rights Issue

(A) Net tangible assets value

Set out below is the analysis of the Group's net tangible assets value (the "NTAV") based on Appendix II to the Circular, which has taken into account (i) the unaudited consolidated NTAV of the Group as at 31 March 2007; (ii) the effect of the completion of the Rights Issue:

	HK$' 000
Unaudited consolidated NTAV of the Group as at 31 March 2007 (the "Unaudited NTAV")	1,365,450
Add: Estimated net proceeds from the Rights Issue	773,900
Unaudited adjusted proforma NTAV, after taking into account the effect of the completion of the Rights Issue (the "Proforma NTAV")	2,139,350
Unaudited NTAV per Share *(Note 1)*	HK$0.35
Proforma NTAV per Share *(Note 2)*	HK$0.37

Notes:

1. Based on 3,902,951,727 issued Shares as at the Latest Practicable Date.

2. Based on 3,902,951,727 issued Shares as at the Latest Practicable Date and 1,951,475,863 Rights Shares to be issued pursuant to the Rights Issue and assuming no Outstanding Options are exercised prior to the Record Date.

The unaudited consolidated NTAV of the Group will increase from approximately HK$1,365 million as at 31 March 2007 to approximately HK$2,139 million immediately following the Rights Issue (assuming no Outstanding Options are duly exercised on or before completion of the Rights Issue), representing an increase of approximately 56.7%.

The Unaudited NTAV per Share as at 31 March 2007 was approximately HK$0.35, which will increase to approximately HK$0.37 immediately following completion of the Rights Issue (assuming no Outstanding Options are duly exercised on or before completion of the Rights Issue), representing an increase of approximately 5.7%. The increase was mainly due to the fact that the Subscription Price for the Rights Issue is at a premium to the Unaudited NTAV per Share as at 31 March 2007. Taking into account that the Rights Issue will enlarge the capital base of the Group, we consider the overall increase in the Group's consolidated NTAV to be favorable to the Company as a whole.

(B) Gearing

Based on the unaudited consolidated balance sheet of the Group as at 31 March 2007, the Group's aggregate bank and cash balances amounted to approximately HK$1,337 million, whilst its interest-bearing bank and other borrowings amounted to approximately HK$2,203 million. Based on the aforesaid, the Group's gearing ratio (being interest-bearing bank and other borrowings less bank and cash balances, expressed as a percentage of the Unaudited NTAV) was approximately 63.4% as at 31 March 2007.

Based on (i) the Group's aggregate bank and cash balances of approximately HK$1,337 million as at 31 March 2007; (ii) the Group's interest-bearing bank and other borrowings of approximately HK$2,203 million as at 31 March 2007; and (iii) the Proforma NTAV of approximately HK$2,139 million, the Directors expect that the Group's gearing ratio would be reduced to approximately 40.5% as a result of completion of the Rights Issue. We consider such improvement in the Group's gearing to be in the interests of the Group and Shareholders as a whole.

(C) Liquidity and working capital

The Directors intend to use the net proceeds of the Rights Issue of HK$390.0 million for partial repayment of Syndicated Loans and the remaining balance for the Group's general working capital which will improve the Group's liquidity and working capital position. We believe that the resulting increase in liquidity of the Group will strengthen the Group's financial position, and we consider the increase in liquidity to be in the interests of the Group and the Shareholders as a whole.

As mentioned in the paragraph headed "Indebtedness" in Appendix I to the Circular, the Directors are of the opinion that despite the breach of certain financial covenants by the Company of the relevant bank loan agreements as at 31 December 2006, after taking into account the present internal financial resources of the Group, the available banking facilities, the filing of a declaration of insolvency by TTE Europe and the estimated net proceeds from the

Rights Issue and the Bond Issue, the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this letter. In addition, as advised by the Directors, after the repayment of the Syndicated Loans, the Group will not have any bank loans which financial covenants have been breached.

6. Prospects of the Group

As mentioned in the "Letter from the Board" of the Circular, the Directors consider that while competition will remain keen in the consumer electronic industry, the outlook of the Group for 2007 is positive. To capture new opportunities arising from the migration to flat panel televisions and digital televisions, the Group is focusing additional resources on these two areas, in particular on LCD televisions.

The Group is moving towards its goal of establishing global cost advantage in small-size products, while achieving feature and industrial design differentiation in mid-range and high-end products. Cost reductions in manufacturing have been achieved through component and software standardisation, together with a relentless effort to improve overall product and supply chain quality.

Although the PRC market experienced a contraction in demand in 2006, the Directors expect that the market demand for higher quality televisions will increase in the lead-up to the 2008 Olympic Games.

As a result of the business restructuring of the Group in Europe, the Directors consider that the Group's sales in Europe in 2007 will decrease in terms of volume and revenue. However, the Directors expect that the new business model will reduce the operating costs of the Group's subsidiaries in Europe significantly.

The Group expects to see continued improvements in its North American operations. Currently, projection televisions account for a large proportion of the sales mix in this market. The Group will improve its position in the LCD televisions segment in the next few years with more marketing campaigns as well as further improvement in cost structure.

The Directors consider that emerging markets and the Group's OEM business offer ample room for growth, though they are expected to grow at a relatively slower pace.

Although there was shrinkage in the market for CRT televisions, the Directors consider that it remains a sizable business by volume. Whilst there has been a trend for global television manufacturers with sizeable scale to reduce or stop production of CRT televisions, this business has always contributed a stable revenue and profit stream for the Group.

Based on the above, we consider that the view of the Directors that the Group will be well placed to maintain a steady global market share and enhance its competitiveness is not unreasonable.

II. THE WHITEWASH WAIVER

As stated in the "Letter from the Board" of the Circular, in the event that TCL Industries is called upon to subscribe for the Rights Shares in full pursuant to its obligations under the Underwriting Agreement, the voting rights of TCL Industries and parties acting in concert with it in the Company will increase from approximately 39.31% to (i) approximately 59.54% upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming none of the Outstanding Options are exercised on or before the completion of the Rights Issue); and (ii) approximately 58.80% upon completion of the Rights Issue as enlarged by the issue of the Rights Shares (assuming all Outstanding Options are exercised on or before the completion of the Rights Issue). Accordingly, the underwriting by TCL Industries of the Rights Issue may trigger a mandatory general offer obligation under Rule 26 of the Takeovers Code for all the securities of the Company not already held by TCL Industries and parties acting in concert with it.

TCL Industries has applied to the Executive for the Whitewash Waiver, and the Executive has indicated that the Whitewash Waiver will be granted, subject to the approval of the Independent Shareholders by a poll at the EGM. It is the intention of TCL Industries to maintain the listing of Shares on the Stock Exchange after the completion of the Rights Issue and to ensure the public float of the Shares will not be less than 25%.

Shareholders should note that the Rights Issue is conditional on, among others, (i) the Executive granting to TCL Industries the Whitewash Waiver on or before the Posting Date; and (ii) the passing of the proposed resolution by the Independent Shareholders by way of poll at the EGM approving the Whitewash Waiver. Pursuant to the terms of the Rights Issue, none of TCL Industries and the Company may waive the aforesaid conditions. The approval of the Whitewash Waiver by the Independent Shareholders, therefore, will be necessary for the Rights Issue to proceed and for the Company and the Shareholders to enjoy the benefits of the Rights Issue.

If the Whitewash Waiver is not approved, according to the Underwriting Agreement, the Rights Issue will not proceed, which will not provide the necessary funds for the Group's partial repayment of the Syndicated Loans and general working capital purposes, and the Independent Shareholders will not enjoy the benefits of the Rights Issue. Accordingly, we consider that it would be in the interest of the Independent Shareholders to vote in favour of the grant of the Whitewash Waiver.

RECOMMENDATION

Having considered the above factors and reasons, in particular, the following:

(i) the Rights Issue will improve the Group's gearing position and will enhance the Company's working capital and liquidity after taking into account the historical financial position of the Group;

(ii) all Qualifying Shareholders will be provided with an equal opportunity to take up the Rights Shares in accordance with their provisional entitlements under the Rights Issue, and their respective interests in the Company will not be diluted if they take up in full their provisional allotments under the Rights Issue;

(iii) the discount of the Subscription Price to the closing pricing on the Last Trading Date and the theoretical ex-rights price is fair and reasonable and in-line with normal industry practices;

(iv) the underwriting arrangement is acceptable given that TCL Industries will not receive any underwriting commission pursuant to the Underwriting Agreement;

(v) TCL Industries and its concert parties are always the controlling Shareholders immediately before and after the completion of the Rights Issue assuming that no other Shareholder except TCL Industries takes up the entitlement in the Rights Issue and TCL Industries is called upon to subscribe for the Rights Shares in full pursuant to its obligations under the Underwriting Agreement; and

(vi) the view of the Directors that the Group will be well placed to maintain a steady global market share and enhance its competitiveness,

we are of the opinion that the terms of the Rights Issue and the granting of Whitewash Waiver are in the interests of the Group and the Independent Shareholders as a whole, and are fair and reasonable so far as the Group and the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Taifook Capital Limited

Derek C. O. Chan	**Marcus Ho**
Managing Director	*Executive Director*

1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results and financial position of the Group (as restated where applicable) for each of the three years ended 31 December 2004, 2005 and 2006 as extracted from the annual reports of the Group for the two years ended 31 December 2006, and the unaudited consolidated results and financial position of the Group for the three months ended 31 March 2007 as extracted from the results announcement of the Group for the three months ended 31 March 2007. The auditors' reports as set out in the annual reports of the Group for each of the three years ended 31 December 2004, 2005 and 2006 were unqualified.

Results of the Group

	For the year ended 31 December			For the three months ended 31 March
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)		
Turnover	23,641,036	32,499,945	29,186,823	5,019,026
Profit/(loss) before tax	357,550	(578,574)	(2,411,311)	(37,332)
Tax	(125,075)	(107,311)	(96,523)	(28,694)
Profit/(loss) for the year/period from continuing operations	232,475	(685,885)	(2,507,834)	(66,026)
Profit/(loss) for the year/period from a discontiued operation	55,469	(17,382)	7,362	–
Profit/(loss) for the year/period	287,944	(703,267)	(2,500,472)	(66,026)
Attributable to:				
Equity holders of the parent	308,985	(598,893)	(2,497,314)	(67,280)
Minority interests	(21,041)	(104,374)	(3,158)	1,254
	287,944	(703,267)	(2,500,472)	(66,026)
Dividends				
Interim – HK4 cents per share	110,316	–	–	–
Distribution in specie *(Note 1)*	1,351,585	–	–	–
Proposed final – HK4 cents per share	110,346	–	–	–
	1,572,247	–	–	–
Earnings/(loss) per share attributable to ordinary equity holders of the parent				
Basic	HK11.29 cents	HK(18.66) cents	HK(63.99) cents	HK(1.72) cents
Diluted	HK8.85 cents	N/A	N/A	N/A

Notes:

1. A special dividend of HK$1,351,585,000 in the form of distribution in specie of the shares of TCL Communication Technology Holdings Limited ("TCL Communication Shares") held by the Company on the basis of 40 TCL Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company was made to the Shareholders on the register of members on 23 September 2004.

2. No extraordinary or exceptioned item was recorded in the Group's financial statements for the three years ended 31 December 2006 and for the three months ended 31 March 2007.

Financial position of the Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	16,902,901	18,151,136	12,397,004	9,596,503
Total liabilities	(12,549,943)	(14,052,144)	(10,706,962)	(7,952,992)
	4,352,958	4,098,992	1,690,042	1,643,511
Minority interests	(1,422,082)	(108,476)	(88,876)	(91,581)
Net assets attributable to equity holders of the parent	2,930,876	3,990,516	1,601,166	1,551,930

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is the audited consolidated financial statements of the Group for the year ended 31 December 2006 together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2006.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CONTINUING OPERATIONS			
TURNOVER	6	29,186,823	32,499,945
Cost of sales		(24,690,655)	(27,040,234)
Gross profit		4,496,168	5,459,711
Other revenue and gains		170,405	233,189
Selling and distribution costs		(4,338,220)	(4,206,082)
Administrative expenses		(1,135,545)	(1,182,981)
Research and development costs		(383,567)	(504,808)
Other operating expenses		(245,928)	(129,493)
		(1,436,687)	(330,464)
Fair value losses of equity investments at fair value through profit or loss		(37,653)	(95,083)
Costs in connection with the restructuring and winding-down of the EU Business, net	7	(694,868)	–
Finance costs	8	(245,622)	(162,239)
Share of profits and losses of:			
Jointly-controlled entities		3,589	9,212
An associate		(70)	–
LOSS BEFORE TAX	9	(2,411,311)	(578,574)
Tax	12	(96,523)	(107,311)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(2,507,834)	(685,885)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	14	7,362	(17,382)
LOSS FOR THE YEAR		(2,500,472)	(703,267)

CONSOLIDATED INCOME STATEMENT *(continued)*
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Attributable to:			
Equity holders of the parent	13	(2,497,314)	(598,893)
Minority interests		(3,158)	(104,374)
		(2,500,472)	(703,267)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic			
– For loss for the year		HK(63.99) cents	HK(18.66) cents
– For loss from continuing operations		HK(64.17) cents	HK(18.12) cents
Diluted			
– For loss for the year		N/A	N/A
– For loss from continuing operations		N/A	N/A

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	1,993,791	2,722,422
Prepaid land lease payments	18	86,318	62,623
Goodwill	19	119,638	206,639
Other intangible assets	20	67,784	91,993
Interests in jointly-controlled entities	22	110,444	157,088
Interests in an associate	23	69,566	–
Available-for-sale investments	24	2,325	14,773
Long term receivables	25	–	358,774
Prepaid royalty	26	269,596	563,674
Deferred tax assets	38	20,678	27,690
Total non-current assets		2,740,140	4,205,676
CURRENT ASSETS			
Inventories	27	3,206,919	4,599,339
Trade and bills receivables	28	3,595,130	6,036,973
Other receivables	30	926,925	1,270,343
Tax recoverable		23,257	39,089
Equity investments at fair value through profit or loss	31	–	47,594
Pledged deposits	32	10,000	90,165
Cash and bank balances	32	1,894,633	1,861,957
Total current assets		9,656,864	13,945,460
CURRENT LIABILITIES			
Trade and bills payables	33	4,642,315	6,867,142
Tax payable		111,124	145,985
Other payables and accruals	34	2,099,535	1,916,671
Provisions	35	805,328	197,402
Interest-bearing bank and other borrowings	36	2,660,582	3,481,045
Due to a shareholder	37	–	536,364
Due to the ultimate holding company	29	347,999	717,863
Total current liabilities		10,666,883	13,862,472
NET CURRENT ASSETS/(LIABILITIES)		(1,010,019)	82,988
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,121	4,288,664

CONSOLIDATED BALANCE SHEET *(continued)*
31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,121	4,288,664
NON-CURRENT LIABILITIES			
Deferred tax liabilities	38	21,908	24,057
Pensions and other post-employment benefits	39	18,171	165,615
Total non-current liabilities		40,079	189,672
Net assets		1,690,042	4,098,992
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	40	390,295	390,295
Reserves	41	1,210,871	3,600,221
		1,601,166	3,990,516
Minority interests		88,876	108,476
Total equity		1,690,042	4,098,992

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Total equity at 1 January		4,098,992	4,352,958
HKAS 39 – Recognition of fair value of the Call Option		–	109,876
HKFRS 3 – Derecognition of negative goodwill		–	548,016
Set-off of goodwill arising from the Share Exchange	41	–	(520,725)
Issue of shares, including share premium	40	–	1,636,984
Acquisition of minority interests	41	–	(1,159,255)
Disposal of subsidiaries	41	(19,907)	–
Equity-settled share option arrangements	41	22,295	28,661
Dividends paid to minority shareholders	41	–	(21,110)
Dividends paid to equity holders of the parent		–	(110,346)
		4,101,380	4,865,059
Total income and expenses recognised directly in equity:			
Exchange differences on translation of the financial statements of foreign entities	41	89,134	(62,800)
Loss for the year	41	(2,500,472)	(703,267)
Total income and expenses for the year		(2,411,338)	(766,067)
Total equity at 31 December		1,690,042	4,098,992
Total income and expenses for the year:			
Attributable to:			
Equity holders of the parent		(2,411,645)	(632,826)
Minority interests		307	(133,241)
		(2,411,338)	(766,067)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		(2,411,311)	(578,574)
From a discontinued operation	14	7,362	(5,524)
Adjustments for:			
Finance costs	8	246,387	163,546
Share of profits and losses of jointly-controlled entities and an associate		(3,519)	(9,212)
Depreciation	9	408,091	334,290
Loss/(gain) on disposal of items of property, plant and equipment, and prepaid land lease payments	9	11,562	(26,517)
Bank interest income	9	(25,345)	(30,664)
Fair value losses of equity investments at fair value through profit or loss		37,653	95,083
Impairment of available-for-sale investments	9	2,550	1,058
Impairment of items of property, plant and equipment	9	37,315	–
Costs in connection with the restructuring and winding-down of the EU Business, net	7	694,868	–
Gain on disposal of equity investments at fair value through profit or loss	9	(3,179)	–
Loss on liquidation of an available-for-sale investment	9	–	4,280
Amortisation of other intangible assets	9	6,464	4,791
Amortisation of prepaid land lease payments	9	2,543	5,908
Equity-settled share option expense	9	22,295	28,661
		(966,264)	(12,874)
Decrease/(increase) in inventories		1,149,668	(59,544)
Decrease/(increase) in trade and bills receivables		2,072,673	(552,872)
Decrease in other receivables		731,926	134,775
Increase/(decrease) in trade and bills payables		(1,857,514)	371,847
Increase in other payables and accruals		141,341	184,508
Increase/(decrease) in provisions		27,417	(33,807)
Increase/(decrease) in pensions and other post-employment benefits		(2,571)	49,580
Cash generated from operations		1,296,676	81,613
Interest paid		(246,387)	(163,546)
Income taxes paid		(124,307)	(119,191)
Net cash inflow/(outflow) from operating activities		925,982	(201,124)

CONSOLIDATED CASH FLOW STATEMENT *(continued)*
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash inflow/(outflow) from operating activities		925,982	(201,124)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	17	(225,336)	(855,584)
Prepayment of land lease payments	18	(25,195)	(37,416)
Purchases of other intangible assets		–	(1,166)
Purchases of available-for-sale investments		(1,949)	(13,031)
Proceeds from disposal of items of property, plant and equipment, and prepaid land lease payments		173,403	227,037
Proceeds from disposal of equity investments at fair value through profit or loss		13,120	84,093
Disposal of subsidiaries	42(c)	357,698	–
Deconsolidation of a subsidiary	42(d)	(1,524)	–
Decrease/(increase) in pledged deposits		80,165	(90,165)
Acquisition of minority interests	42(a)	–	(43,800)
Acquisition of subsidiaries	42(b)	–	(11,473)
Investment in an associate		(69,074)	–
Interest received		25,345	30,664
Dividends received from jointly-controlled entities		5,657	1,563
Net cash inflow/(outflow) from investing activities		332,310	(709,278)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other loans		8,642,512	2,171,399
Repayment of bank loans		(9,284,566)	(1,021,560)
Repayment of convertible notes		–	(256,000)
Proceeds from issue of shares upon exercise of share options	40	–	804
Loan from the ultimate holding company		(452,561)	466,367
Loan from a shareholder		161,203	367,334
Repayment of a loan from a shareholder		(256,601)	(790,634)
Dividends paid		–	(110,346)
Dividends paid to minority shareholders		–	(21,110)
Net cash inflow/(outflow) from financing activities		(1,190,013)	806,254

CONSOLIDATED CASH FLOW STATEMENT *(continued)*
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		68,279	(104,148)
Cash and cash equivalents at beginning of year		1,720,490	1,833,272
Effect of foreign exchange rate changes, net		52,816	(8,634)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,841,585	1,720,490
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	1,894,633	1,861,957
Bank overdrafts	36	(53,048)	(141,467)
		1,841,585	1,720,490

BALANCE SHEET
31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	1,157,217	3,509,058
CURRENT ASSETS			
Due from subsidiaries	21	1,460,514	2,150,804
Other receivables	30	3,013	14,095
Equity investments at fair value through profit or loss	31	–	47,594
Cash and bank balances	32	5,041	12,396
Total current assets		1,468,568	2,224,889
CURRENT LIABILITIES			
Tax payable		5,828	5,828
Other payables and accruals	34	55,404	98,843
Interest-bearing bank and other borrowings	36	1,151,377	1,538,300
Total current liabilities		1,212,609	1,642,971
NET CURRENT ASSETS		255,959	581,918
Net assets		1,413,176	4,090,976
EQUITY			
Issued capital	40	390,295	390,295
Reserves	41	1,022,881	3,700,681
Total equity		1,413,176	4,090,976

NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

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

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

- manufacture and sale of colour television sets, and trading of related components
- manufacture and sale of other audio-visual products
- manufacture and sale of computer related products (discontinued during the year)

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION

(a) Going concern

As at 31 December 2006, the Group had net current liabilities of approximately HK$1,010 million that included bank loans of approximately HK$1,115 million (the "Syndication Loans") which were repayable on demand due to the breach of certain financial covenants of the relevant bank loan agreements. The Group also incurred a loss attributable to equity holders of the parent of approximately HK$2,497 million for the year ended 31 December 2006.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, or otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

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

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Resolving and Settlement Agreement (the "Master Agreement") dated 13 February 2007 entered into between the TCL Parties and the Thomson Parties. Further details of these arrangements are detailed in note 47 to the financial statements.

(ii) On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007.

Further details of the Rights Issue are set out in the Company's announcement dated 15 May 2007.

2. **BASIS OF PRESENTATION** *(Continued)*

(a) **Going concern** *(Continued)*

(iii) On 17 May 2007, the Company obtained an undertaking from TCL Corporation which undertakes that TCL Corporation together with T.C.L. Industries and TCL Finance Co., Ltd ("TCL Finance"), will make available to the Group loans of not less than HK$469 million, in aggregate, at each month end for the period from 17 May 2007 to 30 June 2008 or the date on which the issuance of convertible bonds discussed in (iv) below is completed, whichever is earlier.

(iv) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million).

Further details of the issue of the Bonds are set out in the Company's announcement dated 21 May 2007.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of the fund raising exercises in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2006.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these financial statements.

(b) **Winding-down and liquidation of TTE Europe and its subsidiaries (collectively the "EU Group")**

Liquidation basis of accounting

As a result of the Company's decision to significantly wind down the EU Group in October 2006 and the filing of a declaration of insolvency to the French court by TTE Europe on 24 May 2007, the liquidation basis of accounting has been adopted for the financial statements of the EU Group for the year ended 31 December 2006.

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

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

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

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

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

2. BASIS OF PRESENTATION *(Continued)*

(b) Winding-down and liquidation of TTE Europe and its subsidiaries (collectively the "EU Group") *(Continued)*

Adjustments to the liquidation basis of accounting

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

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

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

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

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

3.2 IMPACT OF NEW AND REVISED HKFRSs

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

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as at fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

3.2 IMPACT OF NEW AND REVISED HKFRSs *(Continued)*

(c) HK(IFRIC)-Int 4 ***Determining whether an Arrangement contains a Lease***

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

(d) HK(IFRIC)-Int 6 ***Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment***

The Group has adopted this interpretation as of 1 January 2006, which provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union's Directive on Waste Electrical and Electronic Equipment in respect of sales of historical household equipment. This interpretation has had no material impact on these financial statements.

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

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

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in an associate are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% - 4.5%
Leasehold improvements	25% - 50%
Plant and machinery	9% - 20%
Furniture, fixtures and equipment	18% - 25%
Motor vehicles	18% - 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

3.4 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Financial liabilities including trade and other payables, amounts due to the ultimate holding company and a shareholder and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

Inventories

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) from the rendering of services, when the services are rendered;

(d) rental income, on a time proportion basis over the lease terms; and

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

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer or management using a binomial model, further details of which are given in note 40 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires/lapses (when it is released directly to retained profits).

3.4 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to the income statement as they become payable in accordance with the rules of the pension schemes.

Certain subsidiaries operate defined benefits pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefits obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries and jointly-controlled entities and an associate are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In addition to the judgements and estimates made by the EU Group in applying the liquidation basis of accounting in note 2(b) to the financial statements, in the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Derecognition of financial assets – Receivables purchase arrangements

The Group has entered into certain receivables purchase arrangements with its banks and a factoring company on its trade receivables. The Group has determined that it retains substantially all the risks and rewards of ownership of these trade receivables, either the risks in respect of default payments or the time value of money, which are purchased by the relevant banks and the factoring company. Accordingly, the relevant trade receivables are not derecognised.

(ii) Trademarks with indefinite useful lives

The Group has certain trademarks with indefinite useful lives. The Group has determined that the useful lives of such trademarks are indefinite as there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill/intangible asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with indefinite useful lives at 31 December 2006 were HK$119,638,000 (2005: HK$206,639,000) and HK$56,598,000 (2005: HK$56,598,000), respectively. Further details are given in notes 19 and 20 to the financial statements, respectively.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

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

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

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

(iii) Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iv) Provision against obsolete and slow-moving inventories

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

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

(v) Warranty provisions

As further explained in note 35, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair value of the share options granted and financial instruments are discussed in notes 39, 40 and 48, respectively.

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Continuing operations										Discontinued operation			
	Television		Audio-visual		Others		Eliminations		Total		Computer		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:														
Sales to external customers	26,368,102	29,937,575	2,224,068	1,986,323	594,653	576,047	–	–	29,186,823	32,499,945	1,568,162	2,056,385	30,754,985	34,556,330
Intersegment sales	1,234,744	1,085,755	417,992	369,878	4,705	6,952	(1,657,441)	(1,467,622)	–	(5,037)	–	5,037	–	–
Total	27,602,846	31,023,330	2,642,060	2,356,201	599,358	582,999	(1,657,441)	(1,467,622)	29,186,823	32,494,908	1,568,162	2,061,422	30,754,985	34,556,330
Segment results	(1,220,459)	(236,647)	17,589	(13,242)	(87,516)	11,096	–	–	(1,290,386)	(238,793)	5,501	(7,076)	(1,284,885)	(245,869)
Interest income									22,719	27,805	2,626	2,859	25,345	30,664
Corporate expense									(169,020)	(119,476)	–	–	(169,020)	(119,476)
Finance costs									(245,622)	(162,239)	(765)	(1,307)	(246,387)	(163,546)
Share of profits and losses of:														
Jointly-controlled entities	3,016	4,494	–	–	573	4,718	–	–	3,589	9,212	–	–	3,589	9,212
An associate	–	–	–	–	(70)	–	–	–	(70)	–	–	–	(70)	–
Fair value losses of equity investments at fair value through profit or loss	–	–	–	–	(37,653)	(95,083)	–	–	(37,653)	(95,083)	–	–	(37,653)	(95,083)
Costs in connection with the restructuring and winding-down of the EU Business, net	(694,868)	–	–	–	–	–	–	–	(694,868)	–	–	–	(694,868)	–
Profit/(loss) before tax									(2,411,311)	(578,574)	7,362	(5,524)	(2,403,949)	(584,098)
Tax									(96,523)	(107,311)	–	(11,858)	(96,523)	(119,169)
Profit/(loss) for the year									(2,507,834)	(685,885)	7,362	(17,382)	(2,500,472)	(703,267)
Assets and liabilities														
Segment assets	12,558,439	14,223,166	254,753	87,194	212,571	1,180,351	(2,830,198)	(500,469)	10,195,565	14,990,242	–	644,424	10,195,565	15,634,666
Interests in jointly-controlled entities	110,444	106,264	–	–	–	50,824	–	–	110,444	157,088	–	–	110,444	157,088
Interests in an associate	–	–	–	–	69,566	–	–	–	69,566	–	–	–	69,566	–
Unallocated assets									1,968,381	2,116,411	–	101,504	1,968,381	2,217,915
Bank overdrafts included in segment assets	53,048	141,467	–	–	–	–	–	–	53,048	141,467	–	–	53,048	141,467
Total assets									12,397,004	17,405,208	–	745,928	12,397,004	18,151,136
Segment liabilities	11,426,525	11,796,928	349,733	197,943	581,039	1,075,183	(4,531,505)	(3,290,739)	7,825,792	9,779,315	–	446,811	7,825,792	10,226,126
Unallocated liabilities									2,828,122	3,684,551	–	–	2,828,122	3,684,551
Bank overdrafts included in segment assets	53,048	141,467	–	–	–	–	–	–	53,048	141,467	–	–	53,048	141,467
Total liabilities									10,706,962	13,605,333	–	446,811	10,706,962	14,052,144
Other segment information:														
Depreciation and amortisation	381,925	316,688	14,940	14,064	17,243	8,490	–	–	414,108	339,242	2,990	5,747	417,098	344,989
Impairment and fair value losses recognised in the income statement	39,865	–	–	–	37,653	96,141	–	–	77,518	96,141	–	–	77,518	96,141
Costs in connection with the restructuring and winding-down of the EU Business, net	694,868	–	–	–	–	–	–	–	694,868	–	–	–	694,868	–
Capital expenditure	194,214	801,359	17,129	26,397	12,411	12,234	–	–	223,754	839,990	1,582	15,594	225,336	855,584

5. **SEGMENT INFORMATION** *(Continued)*

(b) **Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	PRC		Europe		North America		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	12,224,685	13,222,387	3,879,008	7,868,705	6,553,278	6,792,573	8,098,014	6,672,665	30,754,985	34,556,330
Attributable to a discontinued operation	(1,568,162)	(2,056,385)	–	–	–	–	–	–	(1,568,162)	(2,056,385)
Revenue from continuing operations	10,656,523	11,166,002	3,879,008	7,868,705	6,553,278	6,792,573	8,098,014	6,672,665	29,186,823	32,499,945
Other segment information:										
Segment assets	4,634,824	5,930,814	724,580	4,376,653	2,179,171	2,790,470	2,656,990	2,536,729	10,195,565	15,634,666
Capital expenditure	96,681	597,261	38,593	89,472	74,724	113,988	15,338	54,863	225,336	855,584

6. **TURNOVER**

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

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

During the year, the Group had implemented a number of measures in restructuring the EU Business and finally, after the conclusion of the Settlement Term Sheet, the Group decided to restructure and reposition its presence in Europe by significantly winding down the EU Business and building up a new business model. The costs incurred and accrued as at 31 December 2006 in connection with the restructuring and winding-down of the EU Business, net of related gains, were summarised below:

	HK$'000
Redundancy costs and severance payments	339,011
Estimated costs for the winding-down of TTE Europe	146,541
Impairment of items of property, plant and equipment	96,050
Impairment of other intangible assets	19,137
Impairment of trade and other receivables	124,853
Write-down of inventories to net realisable value	249,627
Adjustment to adjust liabilities of the EU Group to their estimated settlement amounts	(181,014)
Net gain arising from the Settlement Term Sheet *(notes 25, 26 and 47(b)(v))*	(87,211)
Gain on deconsolidation of a subsidiary *(note 42(d))*	(12,126)
	694,868

8. FINANCE COSTS

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts	197,900	108,661
Other loans wholly repayable within five years	11,595	1,940
Convertible notes	–	6,400
Loan from a shareholder	17,432	24,783
Loan from the ultimate holding company	18,869	21,762
Loan from an associate	591	–
	246,387	163,546
Attributable to:		
A discontinued operation *(note 14)*	765	1,307
Continuing operations reported in the consolidated income statement	245,622	162,239
	246,387	163,546

9. LOSS BEFORE TAX

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

	Group 2006 HK$'000	Group 2005 HK$'000
Cost of inventories sold	26,117,573	28,910,462
Depreciation *(note 17)*	408,091	334,290
Research and development costs	392,424	521,041
Less: Government grants released*	(7,579)	(14,639)
Net research and development costs	384,845	506,402
Amortisation of other intangible assets *(note 20)***	6,464	4,791
Minimum lease payments under operating leases in respect of land and buildings	66,033	63,701
Amortisation of prepaid land lease payments *(note 18)*	2,543	5,908
Auditors' remuneration	20,494	21,802
Employee benefits expense (including directors' remuneration – *note 10*):		
Wages and salaries	1,529,690	1,865,072
Defined contribution expense	91,166	84,148
Defined benefit expense *(note 39)*	28,070	23,879
Equity-settled share option expense	22,295	28,661
	1,671,221	2,001,760
Loss/(gain) on disposal of items of property, plant and equipment, and prepaid land lease payments	11,562	(26,517)
Gain on disposal of equity investments at fair value through profit or loss	(3,179)	–
Loss on liquidation of an available-for-sale investment	–	4,280
Impairment of items of property, plant and equipment***	37,315	–
Impairment of available-for-sale investments	2,550	1,058
Impairment of trade receivables***	191,365	120,196
Foreign exchange differences, net	(26,580)	72,693
Net rental income	(11,860)	(10,712)
Bank interest income	(25,345)	(30,664)
Restructuring costs, net of reimbursement *(note 35)*	22,284	(194)
Provision for warranties *(note 35)*	698,334	248,112
Reversal of write-down of inventories to net realisable value	(954)	(23,435)

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

* Certain government grants have been received for research activities within the Guangdong Province, the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** The amortisation of other intangible assets is included in "Selling and distribution costs" on the face of the consolidated income statement.

*** The impairment of items of property, plant and equipment and the impairment of trade receivables are included in "Other operating expenses" on the face of the consolidated income statement.

10. DIRECTORS' REMUNERATION

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

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Fees	1,088	700
Other emoluments:		
Salaries, allowances and benefits in kind	3,912	3,448
Discretionary performance related bonuses	4,183	900
Employee share option benefits	3,652	3,254
Pension scheme contributions	138	94
	11,885	7,696
	12,973	8,396

(a) Independent non-executive directors

	2006 Fees	2006 Employee share option benefits	2006 Total	2005 Fees	2005 Employee share option benefits	2005 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tang Guliang	225	49	274	150	51	201
Mr. Wang Bing	225	49	274	150	51	201
Dr. Hon Fongming, Perry	63	49	112	150	51	201
Mr. Robert Maarten Westerholf	50	–	50	–	–	–
	563	147	710	450	153	603

There was no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

10. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006						
Executive directors:						
Mr. Li Dongsheng	–	1,064	–	825	20	1,909
Ms. Lu Zhongli	–	390	–	412	–	802
Mr. Hu Qiusheng	–	489	–	412	15	916
Mr. Shi Wanwen	–	641	1,132	428	28	2,229
Mr. Wang Kangping	–	–	–	230	–	230
Mr. Yuan Bing	–	116	–	54	–	170
Mr. Yan Yong, Vincent	–	1,073	3,051	568	65	4,757
Mr. Zhao Zhongyao	–	139	–	527	10	676
	–	3,912	4,183	3,456	138	11,689
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	–	–	49	–	274
Mr. Alastair Kenneth Ruskin Campbell	150	–	–	–	–	150
Mr. Didier Trutt	150	–	–	–	–	150
	525	3,912	4,183	3,505	138	12,263
2005						
Executive directors:						
Mr. Li Dongsheng	–	650	200	853	–	1,703
Ms. Lu Zhongli	–	390	–	427	–	817
Mr. Hu Qiusheng	–	390	231	427	–	1,048
Mr. Zhao Zhongyao	–	435	274	554	19	1,282
Mr. Yan Yong, Vincent	–	1,073	195	597	56	1,921
Mr. Suen Haywai, Felipe	–	510	–	192	19	721
Mr. Alastair Kenneth Ruskin Campbell	50	–	–	–	–	50
Mr. Didier Trutt	50	–	–	–	–	50
	100	3,448	900	3,050	94	7,592
Non-executive director:						
Mr. Albert Thomas da Rosa, Junior	150	–	–	51	–	201
	250	3,448	900	3,101	94	7,793

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2005: Nil) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2005: five) non-director, highest paid employees for the year are as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	9,362	10,302
Discretionary performance related bonuses	5,812	4,230
Pension scheme contributions	1,288	1,501
Compensation for the loss of office	2,944	–
	19,406	16,033

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

	Number of employees	
	2006	**2005**
HK$2,500,001 to HK$3,000,000	1	1
HK$3,000,001 to HK$3,500,000	2	4
HK$3,500,001 to HK$4,000,000	–	–
HK$4,000,001 to HK$4,500,000	–	–
More than HK$4,500,001	1	–
	4	5

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	**2005**
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	16,662	11,403
Overprovision in prior years	(1,712)	–
Current – Elsewhere		
Charge for the year	80,333	119,421
Under/(over) provision in prior years	2,437	(3,466)
Deferred *(note 38)*	(1,197)	(20,047)
Total tax charge for the year	96,523	107,311

12. TAX *(Continued)*

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

	2006 *HK$'000*	**2005** *HK$'000*
Loss before tax (including profit/(loss) before tax from a discontinued operation)	(2,403,949)	(584,098)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	(514,621)	(225,978)
Lower tax rate for specific provinces or local authority	(130,737)	(145,571)
Adjustments in respect of current tax of previous periods	725	(3,466)
Profits and losses attributable to jointly-controlled entities and an associate	(1,944)	(4,169)
Income not subject to tax	(18,928)	(65,371)
Expenses not deductible for tax	80,652	168,838
Tax losses not recognised	697,641	385,865
Tax losses utilised from previous periods	(18,161)	–
Others	1,896	9,021
Tax charge at the Group's effective rate	96,523	119,169
Represented by:		
Tax charge attributable to a discontinued operation *(note 14)*	–	11,858
Tax charge attributable to continuing operations reported in the consolidated income statement	96,523	107,311
	96,523	119,169

The share of tax attributable to jointly-controlled entities amounting to HK$783,000 (2005: HK$1,130,000) is included in "Share of profits and losses of jointly-controlled entities and an associate" on the face of the consolidated income statement.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities and an associate are subject to income taxes at tax rates ranging from 15% to 33%.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of HK$2,700,095,000 (2005: HK$296,037,000) which has been dealt with in the financial statements of the Company (note 41).

14. DISCONTINUED OPERATION

On 21 June 2006, the Company and T.C.L. Industries entered into a sale and purchase agreement and pursuant to which the Company, inter alia, disposed of its entire interest in TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology") to T.C.L. Industries for a consideration of HK$283 million. Computer Technology and its subsidiaries are principally engaged in the manufacture and sale of computer related products and represent a separate business segment, the Computer segment, of the Group that is part of the PRC operations. The disposal was completed on 8 September 2006 and further details of this disposal are set out in note 47 to the financial statements.

The results of the Computer segment for the period from 1 January to 8 September 2006 and the year ended 31 December 2005 are presented below:

	2006	**2005**
	HK$'000	*HK$'000*
Turnover	1,568,162	2,056,385
Other revenue	12,357	19,025
Expenses	(1,572,392)	(2,079,627)
Finance costs	(765)	(1,307)
Profit/(loss) before tax from the discontinued operation	7,362	(5,524)
Tax	–	(11,858)
Profit/(loss) for the year from the discontinued operation	7,362	(17,382)

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

	2006	**2005**
	HK$'000	*HK$'000*
Operating activities	(184,904)	(41,180)
Investing activities	75,440	(83,976)
Financing activities	243,708	176,458
Net cash inflow	134,244	51,302
Earnings/(loss) per share:		
Basic, from the discontinued operation	HK0.19 cents	HK(0.54) cents
Diluted, from the discontinued operation	N/A	N/A

14. DISCONTINUED OPERATION *(Continued)*

The calculations of basic and diluted earnings/(loss) per share from the discontinued operation are based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation used in the basic and diluted earnings/(loss) per share calculation	7,362	(17,382)

	Number of shares 2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	3,902,951,727	3,210,011,179
Effect of dilution – weighted average number of ordinary shares:		
Assumed to have been issued at no consideration on deemed exercise of all outstanding share options	–	6,240,721
Deemed conversion of all convertible notes	–	105,886,421
Deemed exercise of the Exchange Option during the year	–	692,778,748
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	3,902,951,727	4,014,917,069

Diluted earnings/(loss) per share amounts for the year ended 31 December 2006 and 31 December 2005 have not been disclosed, as the share options outstanding during these years and the convertible notes and Exchange Option outstanding during the prior year had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

15. DIVIDENDS

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

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

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

	2006 *HK$'000*	2005 *HK$'000*
Loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:		
From continuing operations	(2,504,676)	(581,511)
From a discontinued operation	7,362	(17,382)
	(2,497,314)	(598,893)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	–	6,400
Adjustment to minority interests upon exercise of the Exchange Option	–	(100,372)
Loss for the purpose of diluted loss per share	(2,497,314)	(692,865)
Attributable to:		
Continuing operations	(2,504,676)	(675,483)
Discontinued operation	7,362	(17,382)
	(2,497,314)	(692,865)

	Number of shares 2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	3,902,951,727	3,210,011,179
Effect of dilution – weighted average number of ordinary shares:		
Assumed to have been issued at no consideration on deemed exercise of all outstanding share options	–	6,240,721
Deemed conversion of all convertible notes	–	105,886,421
Deemed exercise of the Exchange Option during the year	–	692,778,748
Weighted average number of ordinary shares used in diluted loss per share calculation	3,902,951,727	4,014,917,069

Diluted loss per share amounts for the year ended 31 December 2006 and 31 December 2005 have not been disclosed, as the share options outstanding during these years and the convertible notes and Exchange Option outstanding during the prior year had an anti-dilutive effect on the basic loss per share for these years.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006							
At 1 January 2006:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	–	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 1 January 2006, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
Additions	7,289	9,429	62,383	78,679	5,015	62,541	225,336
Disposals	(25,270)	(6,333)	(45,049)	(70,619)	(1,543)	(36,151)	(184,965)
Disposal of subsidiaries *(note 42(c))*	(283,939)	–	(1,145)	(16,201)	(1,979)	–	(303,264)
Deconsolidation of a subsidiary *(note 42(d))*	–	–	(4,052)	(1,104)	–	–	(5,156)
Depreciation provided during the year	(59,090)	(14,217)	(227,704)	(99,137)	(7,943)	–	(408,091)
Impairment	–	(21)	(99,681)	(21,663)	–	(12,000)	(133,365)
Transfers	21,148	–	77,018	17,976	–	(116,142)	–
Exchange realignment	40,131	1,956	22,526	11,666	829	3,766	80,874
At 31 December 2006, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
At 31 December 2006:							
Cost	1,341,218	101,649	1,458,552	353,801	61,939	53,874	3,371,033
Accumulated depreciation and impairment	(204,292)	(37,604)	(851,397)	(235,514)	(35,963)	(12,472)	(1,377,242)
Net carrying amount	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 1 January 2005:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	–	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 1 January 2005, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
Additions	286,716	42,565	107,201	131,603	13,085	274,414	855,584
Disposals	(67,290)	(2,914)	(60,311)	(44,201)	(3,080)	–	(177,796)
Depreciation provided during the year	(65,036)	(13,554)	(167,397)	(71,423)	(16,880)	–	(334,290)
Transfers	149,407	25,730	109,590	23,381	–	(308,108)	–
Exchange realignment	1,302	773	(2,962)	(3,584)	434	(6,722)	(10,759)
At 31 December 2005, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 31 December 2005:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	–	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422

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

	2006 HK$'000	**2005** HK$'000
Freehold	438,022	500,478
Short term leases	115,641	94,495
Medium term leases	787,555	988,198
	1,341,218	1,583,171

At 31 December 2006, certain of the Group's buildings with a net book value of HK$92,834,000 (2005: HK$90,090,000) were pledged to secure general banking facilities granted to a subsidiary of the Company (note 36).

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount at 1 January	68,063	58,721
Additions	25,195	37,416
Disposals	–	(22,724)
Amortised during the year	(2,543)	(5,908)
Disposal of subsidiaries *(note 42(c))*	(4,836)	–
Exchange realignment	2,702	558
Carrying amount at 31 December	88,581	68,063
Current portion included in other receivables *(note 30)*	(2,263)	(5,440)
Non-current portion	86,318	62,623

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

	2006	**2005**
	HK$'000	*HK$'000*
Short term leases	22,634	18,225
Medium term leases	65,947	49,838
	88,581	68,063

19. GOODWILL

Group

	HK$'000
Cost and carrying amount at 1 January and 31 December 2005	206,639
Cost and carrying amount at 1 January 2006	206,639
Acquisition of minority interests *(note 42(a))*	63,138
Disposal of subsidiaries *(note 42(c))*	(150,139)
Cost and carrying amount at 31 December 2006	119,638

As further detailed in note 3.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated capital reserve.

At 31 December 2006, the amount of goodwill remaining in consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2005: HK$1,819,000), representing its cost.

19. GOODWILL *(Continued)*

Impairment testing of goodwill

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

The carrying amount of goodwill allocated to the PRC television products cash-generating unit is as follows:

	PRC television products	
	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount of goodwill	119,638	56,500

PRC television products cash-generating unit

The recoverable amount of the PRC television products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 7.6% (2005: 8%) and cash flows beyond the five-year period are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

20. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2006:			
Cost at 1 January 2006, net of accumulated amortisation	14,060	77,933	91,993
Amortisation provided during the year	(3,928)	(2,536)	(6,464)
Impairment during the year	–	(19,137)	(19,137)
Exchange realignment	–	1,392	1,392
At 31 December 2006	10,132	57,652	67,784
At 31 December 2006:			
Cost	15,695	90,890	106,585
Accumulated amortisation and impairment	(5,563)	(33,238)	(38,801)
Net carrying amount	10,132	57,652	67,784
31 December 2005:			
At 1 January 2005:			
Cost	–	34,201	34,201
Accumulated amortisation	–	(7,695)	(7,695)
Net carrying amount	–	26,506	26,506
Cost at 1 January 2005, net of accumulated amortisation	–	26,506	26,506
Additions	15,695	57,764	73,459
Amortisation provided during the year	(1,635)	(3,156)	(4,791)
Exchange realignment	–	(3,181)	(3,181)
At 31 December 2005	14,060	77,933	91,993
At 31 December 2005:			
Cost	15,695	87,667	103,362
Accumulated amortisation	(1,635)	(9,734)	(11,369)
Net carrying amount	14,060	77,933	91,993

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$56,598,000 (2005: HK$56,598,000) which have indefinite useful lives. These trademarks are treated as having an indefinite useful life because, in the opinion of the directors, there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

The recoverable amounts of these trademarks have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 11% (2005: 15%) and cash flows beyond the five-year period are extrapolated using a steady growth rate. The projected cash flows are determined by estimated future revenue based on management expectations for market development.

21. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	3,385,297	3,385,297
Due from subsidiaries	1,641,242	2,304,412
Due to subsidiaries	(227,602)	(45,931)
Capital contribution in respect of employee share-based compensation	25,295	16,084
	4,824,232	5,659,862
Impairment	(2,206,501)	–
	2,617,731	5,659,862
Less: Portion of amounts due from subsidiaries classified as current assets	(1,460,514)	(2,150,804)
	1,157,217	3,509,058

The balances with subsidiaries are unsecured and interest-free, and have no fixed terms of repayment, except for the balances due from TTE and its subsidiaries amounting to HK$1,460,514,000 (2005: HK$2,150,804,000) which are unsecured and repayable on demand, and of which HK$1,253,471,000 (2005: HK$1,675,516,000) bears interest at 1.05% per annum above inter-bank offer rates (2005: 0.6% per annum above inter-bank offer rates).

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	70	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited**	PRC	RMB88,130,825	100	100	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$25,452,000	100	100	Manufacture of audio-visual products
TTE Corporation@	British Virgin Islands/ Hong Kong	US$10,000	100	100	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	100	100	Manufacture and sale of audio-visual products
TTE Europe SAS	France	Euro159,394,580	100	100	Trading of audio-visual products and components

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000,000	100	100	Manufacture and sale of audio-visual products
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	70	70	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	100	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	100	100	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	100	100	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	100	100	Investment holding
TTE Belgium	Belgium	Euro61,500	100	100	Investment holding
TCL International Electronics (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
TTE (North America) Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR246,087,489	100	100	Trading of audio-visual products and components
TCL Information Technology Industrial (Group) Co., Ltd.@	British Virgin Islands/ Hong Kong	US$4,500,000	100	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**	PRC	HK$95,000,000	100	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	100	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	100	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	100	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	70	70	Manufacture of audio-visual products

21. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	100	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	100	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	100	100	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	100	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	100	100	Manufacture and sale of audio-visual products
TCL-Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	100	100	Trading of audio-visual products and components
TCL-Thomson Electronics Polska S.P. Zo.o	Poland	PLN92,463	100	100	Manufacture of audio-visual products
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US$22,103,000	100	100	Manufacture of audio-visual products
TTE Technology Canada Limited	Canada	CAD816,000	100	100	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$75,954,000	100	100	Trading of audio-visual products and components
TCL Russia LLC	Russia	RUB3,000,000	100	100	Trading of audio-visual products and components
TCL Go Video	Cayman Islands/ USA	US$0.1	100	100	Intellectual property holding

@ Direct subsidiaries of the Company

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures under the PRC law

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

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets	110,444	157,088

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 28 and 33 to the financial statements, respectively.

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

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

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

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	132,984	178,406
Non-current assets	17,494	46,414
Current liabilities	(38,016)	(65,897)
Non-current liabilities	(2,018)	(1,835)
Net assets	110,444	157,088
Share of the jointly-controlled entities' results:		
Turnover	666,267	773,229
Other revenue	887	2,204
Total revenue	667,154	775,433
Total expenses	(662,419)	(765,091)
Tax	(1,146)	(1,130)
Profit after tax	3,589	9,212

23. INTERESTS IN AN ASSOCIATE

	Group 2006 *HK$'000*	2005 *HK$'000*
Share of net assets	69,566	–

Particulars of the associate is as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd	RMB500,000,000	PRC	14	Provision of financial services

The Group's shareholding in TCL Finance is held through an indirectly wholly-owned subsidiary of the Company.

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

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

The following table illustrates the summarised financial information of TCL Finance extracted from its financial statements:

	2006 *HK$'000*	2005 *HK$'000*
Assets	582,740	–
Liabilities	85,840	–
Revenues	5,422	–
Loss	(502)	–

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group 2006 *HK$'000*	2005 *HK$'000*
Unlisted equity investments, at cost	5,055	15,831
Provision for impairment	(2,730)	(1,058)
	2,325	14,773

The Group's available-for-sale investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) they do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

25. LONG TERM RECEIVABLES

		Group	
		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
Angers Factory Assets	(a)	–	147,154
Trademark fee reinvestment	(b)	–	81,151
Restructuring costs reimbursement receivable from Thomson	35	–	54,338
Trade receivables	28	–	76,131
		–	358,774

Notes:

(a) Pursuant to the Agreement relating to Thomson Television Angers dated 30 July 2004 (as amended and restated by the Amended and Restated Agreement (Angers) dated 1 September 2005 (the "Amended Angers Agreement")), TTE shall purchase certain existing assets and new assets of the Angers Factory owned by Thomson (the "Angers Factory Assets") with an aggregate fair value of Euro16 million for a nominal consideration of Euro1 within five years from 30 July 2004.

According to the Settlement Term Sheet and the Master Agreement and as further amended by the Amendment to Amended and Restated Agreement (Angers) dated 13 February 2007, Thomson agreed to pay to TTE the amount of Euro15 million (the "Assets Settlement") in lieu of, and in full satisfaction and discharge of, any outstanding obligations of Thomson in respect of the Angers Factory Assets.

According to the Settlement Term Sheet and the Master Agreement, the Assets Settlement was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37), and the loss of approximately HK$10 million arising from the Assets Settlement was charged to the income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

(b)

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Total at 31 December	–	106,786
Less: Portion classified as current assets *(note 30)*	–	(25,635)
Non-current portion	–	81,151

Pursuant to the Thomson Trademark License Agreement dated 30 July 2004 (the "Original Trademark Agreement"), Thomson is required to reinvest the trademark fee receivable from TTE in respect of the sales of certain Thomson-owned brands televisions for the period from the second until the fifth anniversaries (the "Reinvestment Period") after the closing (i.e. 30 July 2004) of the Combination Agreement dated 28 January 2004 (the "Combination Agreement") in general brand awareness advertising compaigns for such brands for the benefits of TTE (hereafter referred to as the "Advertising Obligations").

The Original Trademark Agreement was restated and replaced by the Amended and Restated Thomson Trademark License Agreement dated 1 July 2006 (the "Amended Trademark Agreement"). Pursuant to the Amended Trademark Agreement and as further supplemented by the terms of the Settlement Term Sheet, Thomson agreed to compensate the Group Euro10 million (the "Compensation") for the restructuring of the Original Trademark Agreement. As a result of the restructuring, Thomson was fully released and discharged from the Advertising Obligations. According to the Settlement Term Sheet and the Master Agreement, the Compensation was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37), and the difference of approximately HK$11 million was charged to the Group's income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

26. PREPAID ROYALTY

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Total at 31 December	286,539	603,425
Less: Portion classified as current assets *(note 30)*	(16,943)	(39,751)
Non-current portion	269,596	563,674

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

Pursuant to the Settlement Term Sheet and the Master Agreement, Thomson agreed to repay TTE an amount of Euro30.4 million (the "Partial Royalty Repayment") in respect of the portion of the Prepaid Royalty Amount that TTE has allocated to TTE Europe. The Partial Royalty Repayment was settled partly by cash and partly by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37). A loss of approximately HK$43 million arose from this settlement. The loss was charged to the Group's income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

27. INVENTORIES

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	848,461	1,495,297
Work in progress	271,349	319,628
Finished goods	2,087,109	2,784,414
	3,206,919	4,599,339

At 31 December 2006, certain of the Group's raw materials, work in progress and finished goods with net book values of HK$34,361,000 (2005: Nil), HK$1,174,000 (2005: Nil) and HK$17,757,000 (2005: Nil), respectively, were pledged to secure general banking facilities granted to a subsidiary of the Group *(note 36)*.

28. TRADE AND BILLS RECEIVABLES

		Group	
		2006	2005
	Notes	HK$'000	HK$'000
Due from third parties:			
Trade receivables		3,053,823	5,191,517
Bills receivable		496,755	785,466
		3,550,578	5,976,983
Due from related parties:			
The ultimate holding company	29	1,987	30,004
Companies controlled by TCL Corporation	29	12,291	34,707
Thomson and companies controlled by Thomson (collectively the "Thomson Group")	29	10,565	41,765
Jointly-controlled entities	29	19,709	29,645
		44,552	136,121
Total		3,595,130	6,113,104
Less: Portion classified as non-current assets	25	–	(76,131)
Current portion		3,595,130	6,036,973

The majority of the Group's sales in the PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days. The Group also entered into certain receivables purchase agreements with its banks and a factoring company. Pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks and the factoring company.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	3,274,377	5,593,526
91 to 180 days	163,770	124,902
181 to 365 days	119,421	247,726
Over 365 days	37,562	146,950
	3,595,130	6,113,104

28. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31 December 2006, the Group's trade receivables of HK$764,384,000 (2005:HK$1,110,972,000) (the "Factored Receivables") were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognise the Factored Receivables in the balance sheet because, in the opinion of the directors, the Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money, as at the balance sheet date.

Moreover, at 31 December 2005, the Group discounted bills receivables of HK$20,082,000 to a bank with recourse (the "Discounted Bills"). The Discounted Bills were included in the above balance of bills receivables at 31 December 2005 because the derecognition criteria for financial assets were not met.

Accordingly, the advances from the relevant banks of HK$764,384,000 (2005: HK$828,433,000) received by the Group as consideration for the Factored Receivables and the Discounted Bills at the balance sheet dates and the advances of HK$302,621,000 from a factoring company as consideration for the Factored Receivables at 31 December 2005 were recognised as liabilities, and they are included in "Interest-bearing bank and other borrowings"(note 36).

29. DUE FROM/TO THE ULTIMATE HOLDING COMPANY/ COMPANIES CONTROLLED BY TCL CORPORATION/THE THOMSON GROUP/JOINTLY-CONTROLLED ENTITIES

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount of HK$281,747,000 (2005: HK$717,863,000) due to the ultimate holding company which bears interest at 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China).

30. OTHER RECEIVABLES

		Group		**Company**	
		2006	**2005**	**2006**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments, deposits and other receivables		708,061	1,199,517	1,826	14,095
Prepaid land lease payments	18	2,263	5,440	–	–
Trademark fee reinvestment	25(b)	–	25,635	–	–
Prepaid royalty	26	16,943	39,751	–	–
Due from the Thomson Group *(note)*		160,766	–	–	–
Due from the ultimate holding company	29	1,187	–	1,187	–
Restructuring costs reimbursement receivable from Thomson	35	37,705	–	–	–
		926,925	1,270,343	3,013	14,095

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

31. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity securities listed in Hong Kong	–	9,941	–	9,941
Call Option *(note)*	–	37,653	–	37,653
At 31 December, at market value	–	47,594	–	47,594

The above equity investments at 31 December 2005 were classified as held for trading.

Note: The call option was granted by Thomson pursuant to the Common Stock Call Option Agreement dated 30 July 2004 and is exercisable during the period from 1 November 2004 to 31 October 2006 for the purchase of 2.5 million shares of common stock of Thomson from Thomson at an exercise price of Euro18.12 per share (the "Call Option"). The fair value of the Call Option at 31 December 2005 was estimated by the directors using the binomial model, taking into account the terms and conditions upon which the Call Option was granted. The Call Option was not exercised by the Company and lapsed on 31 October 2006.

32. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total cash and bank balances	1,904,633	1,952,122	5,041	12,396
Less: Time deposits pledged for banking facilities *(note 36)*	(10,000)	(90,165)	–	–
Cash and bank balances	1,894,633	1,861,957	5,041	12,396

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances and the pledged deposits approximate to their fair values.

Included in the Group's cash and bank balances are deposits of HK$62,056,000 (2005: Nil) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.72% per annum, being the saving rate offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 47 to the financial statements.

Included also in the Group's cash and bank balances is a balance of HK$50,963,000 (2005: Nil) held in an escrow bank account which is designated to finance the termination costs in respect of the employees of the EU Business in France.

33. TRADE AND BILLS PAYABLES

		Group	
		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
Due to third parties:			
Trade payables		3,810,491	5,300,868
Bills payable		403,752	978,540
		4,214,243	6,279,408
Due to related parties:			
Companies controlled by TCL Corporation	29	225,066	226,011
The Thomson Group	29	58,391	242,159
Jointly-controlled entities	29	144,615	119,564
		428,072	587,734
		4,642,315	6,867,142

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

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Current to 90 days	4,580,604	6,547,730
91 to 180 days	35,744	77,039
181 to 365 days	25,967	197,155
Over 365 days	–	45,218
	4,642,315	6,867,142

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

34. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	**2005**	**2006**	**2005**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables and accruals	(a)	2,042,594	1,869,632	17,333	51,804
Due to the immediate holding company	(b)	36,040	47,039	36,040	47,039
Due to companies controlled by TCL Corporation	29	20,901	–	2,031	–
		2,099,535	1,916,671	55,404	98,843

Notes:

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

(b) The amount due to the immediate holding company is unsecured, interest-free and repayable on demand, except for a balance of HK$34,991,000 (2005: HK$46,652,000) which bears interest at 3.084% per annum, being the six-month LIBOR on the inception date of the advances.

35. PROVISIONS

Group

	Restructuring costs *HK$'000*	Warranties *HK$'000*	Total *HK$'000*
At 31 December 2005 and 1 January 2006	51,427	145,975	197,402
Arising during the year	517,251	698,334	1,215,585
Utilised during the year	(126,902)	(507,625)	(634,527)
Deconsolidation of a subsidiary *(note 42(d))*	(4,652)	–	(4,652)
Exchange realignment	19,753	11,767	31,520
At 31 December 2006	456,877	348,451	805,328

Restructuring costs

Pursuant to the Restructuring Cost Reimbursement Agreement dated 30 July 2004 (as supplemented and amended by the Reimbursement Agreement Amendment dated 1 September 2005), Thomson agreed to reimburse TTE up to Euro38 million of restructuring costs incurred within the first two years of the closing date (i.e. 30 July 2004) of the Combination Agreement in relation to the injection of the Thomson television businesses into TTE, subject to certain adjustment as may be agreed by the parties. The restructuring costs recoverable from Thomson during the year of HK$9,415,000 (2005: HK$164,587,000) were credited directly to restructuring costs in the income statement.

Moreover, according to the relevant agreements, a portion of the reimbursement shall be reimbursed by Thomson six months after 30 July 2006. As such, the relevant portion of the reimbursement was classified as a non-current asset in the balance sheet as at 31 December 2005.

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

Warranties

The Group provides warranties ranging from three months to three years to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective Interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts – secured	WIBOR+1.0	2007	53,048	5.6	2006	83,472
Bank overdrafts – unsecured	LIBOR/EURIBOR+0.6	2006	–	LIBOR/EURIBOR+0.6	2006	57,995
Bank loans – secured	WIBOR+1.0	2007	6,475	4.5	2006	19,382
Bank loans – unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300
Bank loans – unsecured	4.3 to 7.1	2007	412,159	3.1 to 5.6	2006	328,625
Advances from banks as consideration for Factored Receivables and Discounted Bills	LIBOR+(0.3 to 0.5)	2007	764,384	LIBOR+(0.3 to 0.5)	2006	828,433
Advances from a factoring company as consideration for Factored Receivables	EURIBOR+0.5	2006	–	EURIBOR+0.5	2006	302,621
Trust receipt loans – secured	SIBOR+1	2007	6,785	HIBOR/SIBOR/ LIBOR+(0.4 to 1.7)	2006	48,706
Trust receipt loans – unsecured	LIBOR+(0.7 to 1.0)	2007	79,327	HIBOR+(0.5 to 1.5)	2006	273,511
Loan from TCL Finance	5.3	2007	187,027	–	–	–
Other loan	3	On demand	36,546	–	–	–
			2,660,582			3,481,045

Company

	2006			2005		
	Effective Interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300
Other loan	3	On demand	36,546	–	–	–
			1,151,377			1,538,300

36. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed into:				
Bank loans and overdrafts repayable within one year or on demand	2,437,009	3,178,424	1,114,831	1,538,300
Other borrowings repayable within one year	223,573	302,621	36,546	–
	2,660,582	3,481,045	1,151,377	1,538,300

Notes:

(a) The Group's overdraft facilities amounting to HK$53,048,000 (2005: HK$175,443,000), all of which (2005: HK$141,467,000) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits, property, plant and equipment, and inventories amounting to HK$Nil (2005: HK$59,911,000), HK$Nil (2005: HK$90,090,000), and HK$53,292,000 (2005: Nil), respectively.

(b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits and items of property, plant and equipment amounting to HK$10,000,000 (2005: HK$30,254,000) and HK$92,834,000 (2005: Nil), respectively.

(c) As at 31 December 2006, the carrying amounts of the Group's and the Company's bank and other borrowings approximated to their fair values.

(d) Except for the unsecured bank loans with an aggregate carrying amount of HK$412,159,000 (2005: HK$328,625,000), the loan from TCL Finance of HK$187,027,000 (2005: Nil) and the other loan of HK$36,546,000 (2005: Nil), all other borrowings of the Group bear interest at floating rates.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's bank loans up to HK$315,657,000 (2005: HK$91,267,000) as at the balance sheet date.

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States dollars	1,198,656	1,606,655	629,840	837,335
Euro	426,167	574,718	426,167	512,730
Japanese Yen	–	561	–	–

36. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Breach of loan covenants

As at 31 December 2006, in respect of the Syndication Loans with an aggregate carrying amount of HK$1,114,831,000 (2005: HK$1,538,300,000), the Group breached certain of the financial covenants of the relevant loan agreements, which are primarily related to the value of the Group's consolidated tangible net worth, interest cover ratio and current ratio. On discovery of the breach, the directors of the Company informed the lenders but no renegotiation of the terms of the Syndication Loans was initiated since the Group is planning to settle the Syndication Loans in full in July 2007.

Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the Syndication Loans have been classified as current liabilities in these financial statements at 31 December 2006.

37. DUE TO A SHAREHOLDER

The loan as at 31 December 2005 was due to Thomson, borne interest at rates ranging from 2.36% to 4.26% per annum (being the cost of fund of Thomson) and was secured by the Group's trade receivables with a carrying value of HK$536,364,000. This loan amount should have been fully repaid on 30 July 2006 and the related agreement was terminated automatically.

Pursuant to the Settlement Term Sheet and the Master Agreement, the outstanding and overdue sum related to this loan as at 31 August 2006 amounting to approximately Euro46 million (equivalent to approximately HK$472 million) was settled by way of offsetting the Assets Settlement, the Compensation and the Partial Royalty Repayments as further discussed in notes 25(a), 25(b) and 26, respectively.

38. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	**Depreciation allowance in excess of related depreciation** *HK$'000*
At 1 January 2005		33,989
Deferred tax credited to the income statement during the year	12	(9,769)
Exchange realignment		(163)
Gross deferred tax liabilities at 31 December 2005 and 1 January 2006		24,057
Deferred tax credited to the income statement during the year	12	(2,278)
Exchange realignment		129
Gross deferred tax liabilities at 31 December 2006		21,908

38. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

	Notes	Elimination of unrealised profits arising from intra-group transactions *HK$'000*	Accruals and other provisions *HK$'000*	Pension provisions *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2005		5,300	5,177	8,106	–	18,583
Deferred tax credited to the income statement during the year	12	2,000	6,515	981	782	10,278
Exchange realignment		–	(102)	(1,037)	(32)	(1,171)
Gross deferred tax assets at 31 December 2005 and 1 January 2006		7,300	11,590	8,050	750	27,690
Deconsolidation of a subsidiary	42(d)	–	–	(7,671)	–	(7,671)
Deferred tax credited/(charged) to the income statement during the year	12	2,000	(3,845)	(1,265)	2,029	(1,081)
Exchange realignment		–	754	886	100	1,740
Gross deferred tax assets at 31 December 2006		9,300	8,499	–	2,879	20,678

The Group has tax losses of HK$3,739,284,000 (2005: HK$1,687,303,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or an associate.

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

39. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefits plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the amounts recognised in the consolidated balance sheet for the plans.

	2006	2005
	HK$'000	*HK$'000*
Net benefit expense		
Current service cost	33,399	21,469
Interest cost on benefit obligation	782	5,899
Net cumulative actuarial gain recognised in the income statement	(6,111)	(3,489)
Net benefit expense	28,070	23,879
Benefit liabilities		
Benefit obligation	15,280	167,088
Unrecognised net actuarial losses/(gains)	2,891	(1,473)
Benefit liabilities	18,171	165,615

Movements in the benefit liabilities during the year are as follows:

	2006	2005
At 1 January	165,615	130,050
Acquisition of subsidiaries *(note 42(b))*	–	29,992
Deconsolidation of a subsidiary *(note 42(d))*	(87,161)	–
Benefit expense *(note 9)*	28,070	23,879
Contributions	(30,478)	(3,731)
Curtailments	(68,089)	–
Exchange realignment	10,214	(14,575)
At 31 December	18,171	165,615

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

	2006	2005
	%	%
Discount rate	4.5 – 5.25	2.5 – 4.0
Future salary increases	2.0 – 5.0	2.0 – 5.0
Future pension increases	1.0	1.0
Healthcare cost increase rate	5.0 – 9.5	5.0 – 9.5

40. SHARE CAPITAL

Shares

	Company 2006 HK$'000	Company 2005 HK$'000
Authorised:		
8,000,000,000 (2005: 5,000,000,000) shares of HK$0.10 each	800,000	500,000
Issued and fully paid:		
3,902,951,727 (2005: 3,902,951,727) shares of HK$0.10 each	390,295	390,295

Pursuant to the resolution passed on 27 February 2006, the authorised share capital of the Company was increased from HK$500,000,000 to HK$800,000,000 by the creation of 3,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

During the year, there was no change in issued capital of the Company. A summary of the movements in the Company's issued share capital during the prior year is as follows:

	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2005	2,757,960,632	275,796	37,730	313,526
Share options exercised	809,000	81	723	804
Exchange Option exercised	1,144,182,095	114,418	1,521,762	1,636,180
At 31 December 2005, 1 January 2006 and 31 December 2006	3,902,951,727	390,295	1,560,215	1,950,510

Share options

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

The purpose of the New Scheme is to recognise the contribution of eligible participants, to motivate them by providing incentives to them, to help the Company retain its existing full-time or part-time employees (including any executive and non-executive director or proposed executive and non-executive director) of the Company and its subsidiaries (the "Employees") and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The eligible participants of the New Scheme include any Employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the board of directors at its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted under the New Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the New Scheme and any other scheme).

40. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

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

At 31 December 2006, the number of shares issuable under share options granted under the schemes was 135,420,000 (2005: 183,342,861), which represented approximately 3.5% (2005: 4.7%) of the Company's shares in issue as at that date.

40. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

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

Name or category of participant	Number of share options: At 1 January 2006	Reclassified during the year	Expired during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options∆	Exercise price of share options HK$ per share	Exercise period of share options	Price of Company's shares at date of grant # HK$ per share	Price of Company's shares immediately before the exercise date HK$ per share	Price of Company's shares at exercise date HK$ per share
Directors											
Executive directors											
Li Dongsheng	5,000,000	–	–	–	5,000,000	31 May 2005	1.400	Note 3	1.410	–	–
Lu Zhongli	2,500,000	–	–	–	2,500,000	31 May 2005	1.400	Note 3	1.410	–	–
Hu Qiusheng	2,500,000	(2,500,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
Yan Yong, Vincent	68,000	–	(68,000)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	3,450,000	(3,450,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	3,518,000	(3,450,000)	(68,000)	–	–						
Wang Kangping	–	100,000	(100,000)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	–	1,400,000	–	–	1,400,000	31 May 2005	1.400	Note 3	1.410	–	–
	–	1,500,000	(100,000)	–	1,400,000						
Shi Wanwen	–	2,600,000	–	–	2,600,000	31 May 2005	1.400	Note 3	1.410	–	–
Yuan Bing	–	330,000	–	–	330,000	31 May 2005	1.400	Note 3	1.410	–	–
Zhao Zhongyao	68,000	(68,000)	–	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	3,200,000	(3,200,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	3,268,000	(3,268,000)	–	–	–						
	16,786,000	(4,788,000)	(168,000)	–	11,830,000						
Non-executive directors											
Albert Thomas da Rosa, Junior	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Tang Guliang	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Wang Bing	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Hon Fongming, Perry	300,000	(300,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	1,200,000	(300,000)	–	–	900,000						
Other employees											
	10,000,000	–	(10,000,000)	–	–	4 November 2002	2.305	Note 1	2.175	–	–
	20,286,861	(32,000)	(20,254,861)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	135,070,000	5,120,000	–	(17,500,000)	122,690,000	31 May 2005	1.400	Note 3	1.410	–	–
	165,356,861	5,088,000	(30,254,861)	(17,500,000)	122,690,000						
	183,342,861	–	(30,422,861)	(17,500,000)	135,420,000						

40. SHARE CAPITAL *(Continued)*

Share options *(Continued)*

Note 1 Such share options were exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 2 One-third of such share options was exercisable after the expiry of 9 months from the date of grant, a further one-third was exercisable after the expiry of 18 months from the date of grant, and the remaining one-third was exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 3 One-third of such share options is exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 30 November 2008.

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

Δ The vesting period of the share options is from the date of grant until the commencement of the exercise period.

The fair value of the share options granted in the prior year was HK$57,081,000. The fair value of equity-settled share options granted in prior year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005.

Dividend yield (%)	3.00 per annum
Expected volatility (%)	40.00 per annum
Historical volatility (%)	50.00 per annum
Risk-free interest rate (%)	3.16 per annum
Expected life of option (year)	3.50
Weighted average share price (HK$)	1.50

The expected life of the options is based on the historical data over the past four years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

41. RESERVES

Group

	Attributable to equity holders of the parent								
	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	37,730	14,814	59,099	487,712	99,399	2,503,872	3,202,626	1,422,082	4,624,708
Set-off of goodwill arising from the Share Exchange (note 42(a))	–	–	–	–	–	(520,725)	(520,725)	–	(520,725)
Issue of shares upon exercise of share options (note 40)	723	–	–	–	–	–	723	–	723
Issue of shares upon exercise of the Exchange Option (note 40)	1,521,762	–	–	–	–	–	1,521,762	–	1,521,762
Exchange realignment	–	–	–	–	(33,933)	–	(33,933)	(28,867)	(62,800)
Loss for the year	–	–	–	–	–	(598,893)	(598,893)	(104,374)	(703,267)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(21,110)	(21,110)
Acquisition of minority interests (note 42(a))	–	–	–	–	–	–	–	(1,159,255)	(1,159,255)
Equity-settled share option arrangements	–	28,661	–	–	–	–	28,661	–	28,661
Transfer from retained profits	–	–	–	81,074	–	(81,074)	–	–	–
At 31 December 2005 and 1 January 2006	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697
Exchange realignment	–	–	–	–	85,669	–	85,669	3,465	89,134
Loss for the year	–	–	–	–	–	(2,497,314)	(2,497,314)	(3,158)	(2,500,472)
Disposal of subsidiaries (note 42(c))	–	–	–	–	–	–	–	(19,907)	(19,907)
Equity-settled share option arrangements	–	22,295	–	–	–	–	22,295	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	–	–	20,376	–	–	–
Transfer from retained profits	–	–	–	99,476	–	(99,476)	–	–	–
At 31 December 2006	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	1,210,871	88,876	1,299,747

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

^ The Group's capital reserve originally represented the difference between the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of a subsidiary remains eliminated against the capital reserve is explained in note 19 to the financial statements.

41. **RESERVES** *(Continued)*

Company

	Share premium account HK$'000	Share option reserve[Δ] HK$'000	Capital reserve[#] HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2005	37,730	14,814	738,936	1,654,092	2,445,572
Issue of shares upon exercise of share options (note 40)	723	–	–	–	723
Issue of shares upon the exercise of the Exchange Option (note 40)	1,521,762	–	–	–	1,521,762
Equity-settled share option arrangements	–	28,661	–	–	28,661
Loss for the year	–	–	–	(296,037)	(296,037)
At 31 December 2005 and 1 January 2006	1,560,215	43,475	738,936	1,358,055	3,700,681
Equity-settled share optionarrangements	–	22,295	–	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	20,376	–
Loss for the year	–	–	–	(2,700,095)	(2,700,095)
At 31 December 2006	1,560,215	45,394	738,936	(1,321,664)	1,022,881

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

\# The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of minority interests

(i) For the year ended 31 December 2006

During the year, the Group acquired the remaining 49% equity interest in TCL Electrical Appliance Sales Co., Ltd. (the "Sales Company") owned by TCL Corporation. This acquisition was completed on 10 May 2006 and the consideration has not been settled as at 31 December 2006. Further details of this transaction are included in note 47 to the financial statements.

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

	HK$'000
Carrying amount	–
Goodwill	63,138
	63,138
Satisfied by:	
Due to the ultimate holding company	63,138

(ii) For the year ended 31 December 2005

On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004, Thomson exercised the exchange option (the "Exchange Option") to exchange its 33% equity interest in TTE for shares in the Company (the "Share Exchange").

The Share Exchange represented an acquisition of minority interests in TTE by the Company from Thomson.

The carrying amount of the 33% equity interest in TTE immediately before the Share Exchange and the fair value of the shares of the Company issued on 10 August 2005 were as follows:

	HK$'000
Carrying amount of the 33% equity interest in TTE	1,159,255
Goodwill arising from the Share Exchange	520,725
	1,679,980
Satisfied by:	
Issue of shares of the Company at fair value *(note 40)*	1,636,180
Cash	43,800
	1,679,980

The goodwill arising from the Share Exchange was set off against the negative goodwill (HK$548,016,000 as at 1 January 2005) arising from the Combination Agreement in 2004 because, in the opinion of the directors, the Share Exchange was part of the Combination Agreement and was interrelated and indivisible with the business combination associated with the Combination Agreement in 2004. Since the negative goodwill has been eliminated against the opening balance of retained profits at 1 January 2005 upon the adoption of HKFRS 3, the set-off of this goodwill was accounted for as a reserve movement for the year.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Business combination

In the prior year, the Group acquired the entire equity interest of certain subsidiaries from Thomson. The subsidiaries acquired are engaged in product sales, marketing and management, the design and styling activities related to television products.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the date of acquisition approximated to their corresponding carrying amounts immediately before the acquisition and were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:		
Trade and bills receivables	–	83,539
Prepayments, deposits and other receivables	–	52,131
Trade and bills payables	–	(77,162)
Other payables and accruals	–	(17,043)
Pensions and other post-employment benefits (note 39)	–	(29,992)
	–	11,473
Satisfied by cash	–	11,473

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

	2006	**2005**
	HK$'000	*HK$'000*
Cash paid	–	(11,473)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(11,473)

The results of the subsidiaries acquired during the prior year had no significant impact on the Group's consolidated turnover or loss after tax for the year ended 31 December 2005.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	17	303,264	–
Prepaid land lease payments	18	4,836	–
Goodwill	19	150,139	–
Available-for-sale investments		11,858	–
Interest in a jointly-controlled entity		49,494	–
Long term receivables		38,678	–
Inventories		157,500	–
Trade and bills receivables		412,331	–
Other receivables		148,851	–
Tax recoverable		1,219	–
Cash and bank balances		16,159	–
Trade and bills payables		(276,048)	–
Tax payable		(565)	–
Other payables and accruals		(65,574)	–
Interest-bearing bank and other borrowings		(175,593)	–
Due to Group companies, net		(382,785)	–
Minority interests		(19,907)	–
		373,857	–
Satisfied by cash		373,857	–

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

	2006 HK$'000	2005 HK$'000
Cash consideration	373,857	–
Cash and bank balances disposed of	(16,159)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	357,698	–

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Deconsolidation of a subsidiary

On 27 November 2006, a provisional administrator was appointed by the German court to secure and manage the assets and operations of TTE Germany GmbH ("TTE Germany"), an indirect wholly-owned subsidiary of the Company, upon a declaration of insolvency was filed by TTE Germany. Formal insolvency proceedings were opened under the court order issued by the German court on 1 February 2007 and up to the date of these financial statements, the insolvency proceedings have not been completed. TTE Germany was deconsolidated on 27 November 2006 because, in the opinion of the directors, the Group was unable to exercise its rights as shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of TTE Germany since that day.

	Notes	2006 HK$'000	2005 HK$'000
Net liabilities of TTE Germany:			
Property, plant and equipment	17	5,156	–
Deferred tax assets	38	7,671	–
Other receivables		8,975	–
Tax recoverable		447	–
Cash and bank balances		1,524	–
Due from Group companies, net		69,984	–
Trade and bills payables		(167)	–
Other payables and accruals		(13,903)	–
Provisions	35	(4,652)	–
Pensions and other post-employment benefits	39	(87,161)	–
		(12,126)	–
Gain on deconsolidation of a subsidiary	7	12,126	–
		–	–
Net outflow of cash and bank balances in respect of the deconsolidation of a subsidiary		(1,524)	–

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2006, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Within one year	96	4,314
In the second to fifth years, inclusive	24	12,171
	120	16,485

43. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	33,301	39,944
In the second to fifth years, inclusive	73,689	77,679
After five years	16,449	16,851
	123,439	134,474

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Contracted, but not provided for	198	10,389
Authorised, but not contracted for	2,529	–
	2,727	10,389

45. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	–	2,966,657	2,927,750
Guarantee given to suppliers in connection with the payment of purchases by subsidiaries	–	–	213,835	73,654
Guarantees given in lieu of utility and rental deposits	1,543	4,446	–	–
	1,543	4,446	3,180,492	3,001,404

As at 31 December 2006, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$885 million (2005: HK$1,334 million), and the guarantees given to suppliers in connection with the payment of purchases by subsidiaries were utilised to the extent of approximately HK$13 million (2005: HK$24 million).

46. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 17, 27 and 36 to the financial statements.

47. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2006 HK$'000	2005 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	1,030,009	1,186,725
Sales of finished goods	(ii)	74,748	97,642
Purchases of finished goods	(iii)	1,108,823	1,280,408
Ultimate holding company:			
Interest expense	(iv)	18,869	21,762
Immediate holding company:			
Interest expense	(v)	1,183	621
An associate:			
Interest income	(vi)	4	–
Interest expense	(vii)	591	–
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	–	4,654
Sales of finished goods	(ii)	808	–
Purchases of raw materials	(iii)	806,025	608,839
Purchases of finished goods	(iii)	53,705	108,217
Subcontracting fee expense	(viii)	12,554	13,066
Interest income	(ix)	3,387	–
Rental, maintenance fees and facilities usage fees	(x)	4,033	3,035
Rental expense	(xi)	2,840	–
Interest expense	(xii)	985	–
Reimbursement of brand advertising costs	(xiii)	59,106	–
Thomson Group:			
Sales of finished goods	(ii)	80,063	293,538
Purchases of raw materials	(iii)	97,334	2,077,850
Purchases of finished goods	(xiv)	–	838,580
Agency fee and cost reimbursement expense	(xv)	–	872,207
Styling service fee expense	(xv)	–	21,744
Shared service fee expense	(xv)	270,213	241,687
Interest expense	(xvi)	17,432	24,783
Patent royalty expense	(xvii)	15,118	30,991
Reimbursement of brand advertising costs	(xviii)	40,357	14,476
Trademark royalty fee	(xix)	43,631	20,025
Strategic sourcing fee expense	(xx)	–	27,000
After-sales and related services fee expense	(xv)	49,476	16,787
Laboratory service fee expense	(xv)	3,255	1,314
Reimbursement of reorganisation costs	(xxi)	–	57,903
Subcontracting fee expense	(xxii)	162,788	234,285
Styling service fee income	(xxiii)	2,873	1,608
Logistics management service fee income	(xxiii)	1,963	965

47. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(i) The sales of raw materials were made at a gross margin of 0-1%.

(ii) The sales of finished goods were made by reference to the prevailing market price for comparable transactions.

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

(iv) The interest was charged at a rate of 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China).

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

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

(vii) The interest was charged at a rate of 5% discount on the 6-month loan interest rate offered by the People's Bank of China.

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

(ix) The interest was charged at a premium of 10% to 15% above the loan interest rate within 1 year offered by the People's Bank of China.

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

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

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

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

(xiv) The purchases of finished goods were made on terms such that the Group shall incur no loss and realise no profit from the arrangement.

(xv) The agency fee, cost reimbursement expense, styling service fee, shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(xvi) The interest was charged at rates ranging from 3.78% to 6.1% (2005: from 2.36% to 4.26%) per annum, being the cost of fund of Thomson.

(xvii) The patent royalty was charged at rate ranges that are consistent with the rates offered by Thomson Group to other television manufacturers and varied according to the country in which the colour television receivers are manufactured.

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

47. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

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

(xx) The strategic sourcing fee expense in 2005 was charged at an annual fee of Euro2.85 million (approximately HK$27 million) by Thomson Group, subject to adjustments.

(xxi) The reimbursement of reorganisation costs represents payment by the Group to Thomson to cover the reorganisation costs incurred by Thomson in connection with having an operation mode of Angers Factory acceptable to the Group according to the Amended Angers Agreement. The Group is required to pay a total amount of Euro20 million (equivalent to approximately HK$184 million) over a period of five years, ranging from Euro6 million (equivalent to approximately HK$58 million) in 2005 to Euro2 million (equivalent to approximately HK$18 million) in 2009.

According to the Settlement Term Sheet, the Master Agreement and the Amendment to Amended Angers Agreement dated 13 February 2007, Thomson agreed to waive its right to receive any future payment, including the payment due and payable in 2006, from the Group in respect of the above reimbursement.

(xxii) The subcontracting fee charged by Thomson Group was calculated based on the production cost structure in use at other European factory operations of the Group.

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

(b) Other transactions with related parties:

(i) On 9 March 2006, TCL King Electrical Appliances (Huhehaote) Company Limited ("TCL King Huhehaote"), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with TCL Corporation in relation to the setting up of TCL Finance. Pursuant to the Investment Agreement, TCL King Huhehaote contributed RMB70 million as capital contribution to the TCL Finance, representing 14% of the registered capital of TCL Finance.

TCL Finance was established on 17 October 2006 and further details of this transaction were set out in the Company's announcements dated 9 March 2006 and 27 October 2006.

(ii) On 4 July 2005, the Company and TCL International Electronics (BVI) Limited ("TCLIE"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with TCL Corporation for the acquisition of the remaining 49% equity interest in the Sales Company owned by TCL Corporation at a consideration of Euro6.5 million (equivalent to approximately HK$63 million). This acquisition was completed on 10 May 2006 and the Sales Company became a wholly-owned subsidiary of the Group. Further details of this acquisition were set out in the Company's announcement dated 5 July 2005.

(iii) On 21 June 2006, the Company entered into a sale and purchase agreement (the "Disposal Agreement") with T.C.L. Industries and pursuant to which the Company agreed to sell and procure its relevant subsidiaries to sell to T.C.L. Industries (i) the entire issued share capital of Computer Technology; (ii) the entire issued share capital of TCL Education Web Limited; and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. for a total initial consideration of HK$377 million. Completion of the Disposal Agreement took place on 8 September 2006 and the final consideration was adjusted to HK$374 million.

Further details of the Disposal Agreement were set out in the Company's announcements dated 23 June 2006 and 9 November 2006.

47. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties: *(Continued)*

(iv) On 25 September 2006, the Company entered into a loan agreement (the "Loan Agreement") with T.C.L. Industries and pursuant to which certain short term loans with an aggregate amount of HK$302 million (the "Loans") were drawn by the Company from T.C.L. Industries for a period of sixty days. The interest on the Loans was charged at 0.5% above the respective inter-bank offer rates of the currency in which the related loans were denominated.

Pursuant to an interest waiver letter issued by T.C.L. Industries dated 31 December 2006, the total interest payable by the Company to T.C.L. Industries in respect of the Loans of approximately HK$3 million was unconditionally waived by T.C.L. Industries.

(v) On 12 October 2006, the TCL Parties entered into the Settlement Term Sheet with the Thomson Parties regarding the resolution of the EU Business, whereby the TCL Parties and the Thomson Parties have agreed to, inter alia, the following reciprocal concessions to alleviate the financial difficulties of the EU Business and pave the way for an amicable wind-down of this loss-making EU Business:

- Thomson to waive approximately Euro15.4 million trade payables owed by TTE Europe;
- Thomson to repay TTE Europe approximately Euro30.4 million in respect of the Prepaid Royalty Amount;
- The TCL Parties and the Thomson Parties to restructure the Original Trademark Agreement and the Thomson Parties to compensate the TCL Parties Euro10 million for the restructuring of the Original Trademark Agreement;
- Thomson to pay to TTE the amount of Euro15 million as full settlement of the Angers Factory Assets; and
- The TCL Parties and the Thomson Parties to terminate/restructure certain cooperative agreements related to the EU Business and settle outstanding balances owed to each party.

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Agreement entered into between the TCL Parties and the Thomson Parties. A net gain of HK$87,211,000 was recognised from the above settlements and included in "Costs in connection with the restructuring and winding-down of the EU Business, net" on the face of the consolidated income statement and in note 7 to the financial statements.

Further details of the Settlement Term Sheet were set out in the Company's announcement dated 27 October 2006 and details of the financial impacts of the Settlement Term Sheet and the Master Agreement were set out in notes 7, 25, 26, 37 and 49 to the financial statements.

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

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible notes, other interest-bearing borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.4 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group Treasury hedges foreign exchange risk on its commercial exposures and financial exposures. For commercial exposures, generally 80% of the exposures must be hedged (but may vary with the historical volatility and country risks) after netting off exposures at Group level. Hedging for commercial exposures is normally in short term nature with a maximum of a six-month period which corresponds to the Group's sales cycle. It is the Group's policy to borrow and invest excess cash in the functional currency of its businesses to minimise its foreign currency exposures.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

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

49. POST BALANCE SHEET EVENTS

(i) On 13 February 2007, the TCL Parties and the Thomson Parties entered into the Master Agreement which further formalised and set forth the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet. Further details of the Settlement Term Sheet and the Master Agreement were set out in note 47 to the financial statements.

(ii) Pursuant to an ordinary resolution passed in the extraordinary general meeting held on 15 February 2007, a new share option scheme was approved and adopted. Further details of the new share option scheme was set out in the Company's circular dated 29 January 2007.

(iii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(iv) On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007. Further details of the Rights Issue are set out in the Company's announcement dated 15 May 2007.

(v) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). Further details of the issue of the Bonds are set out in the Company's announcement dated 21 May 2007.

(vi) On 24 May 2007, TTE Europe filed a declaration of insolvency to the French court and the French court appointed a judicial liquidator (the "Liquidator") to take control over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person responsible for winding-up TTE Europe by liquidating its assets and making payment to its creditors. The Group will deconsolidate the EU Group on 29 May 2007 from the Group's financial statements for the year ending 31 December 2007. The financial statements of the EU Group for the year ended 31 December 2006 have been prepared under the liquidation basis of accounting.

50. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 14).

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 May 2007.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is the unaudited consolidated financial statements of the Group for the three months ended 31 March 2007 together with the accompanying notes as extracted from the results announcement of the Company for the three months ended 31 March 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT
Three months ended 31 March 2007

		Three months ended 31 March	
		2007	**2006**
		Unaudited	Unaudited
	Notes	*HK$'000*	*HK$'000*
CONTINUING OPERATIONS			
TURNOVER	3	5,019,026	7,515,573
Cost of sales		(4,103,705)	(6,271,430)
Gross profit		915,321	1,244,143
Other revenue and gains		32,584	72,626
Selling and distribution costs		(683,459)	(932,081)
Administrative expenses		(218,605)	(257,797)
Research and development costs		(15,209)	(126,349)
Other operating expenses		(23,471)	(37,910)
		7,161	(37,368)
Fair value losses of equity investments at fair value through profit or loss		–	(8,601)
Finance costs		(43,256)	(63,023)
Share of profits and losses of:			
Jointly-controlled entities		(1,368)	(399)
An associate		131	–
LOSS BEFORE TAX		(37,332)	(109,391)
Tax	4	(28,694)	(39,657)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(66,026)	(149,048)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation		–	11,194
LOSS FOR THE PERIOD		(66,026)	(137,854)

	Notes	Three months ended 31 March 2007 Unaudited *HK$'000*	Three months ended 31 March 2006 Unaudited *HK$'000*
Attributable to:			
Equity holders of the parent		(67,280)	(139,128)
Minority interests		1,254	1,274
		(66,026)	(137,854)
INTERIM DIVIDEND	5	–	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic:			
– For loss for the period		HK(1.72) cents	HK(3.56) cents
– For loss from continuing operations		HK(1.72) cents	HK(3.85) cents
Diluted:			
– For loss for the period		N/A	N/A
– For loss from continuing operations		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	Note	31 March 2007 Unaudited HK$'000	31 December 2006 Audited HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,981,328	1,993,791
Prepaid land lease payments		82,133	86,318
Goodwill		119,638	119,638
Other intangible assets		66,842	67,784
Interests in jointly-controlled entities		110,957	110,444
Interests in an associate		70,837	69,566
Available-for-sale equity investments		3,333	2,325
Prepaid royalty		270,893	269,596
Deferred tax assets		14,044	20,678
Total non-current assets		2,720,005	2,740,140
CURRENT ASSETS			
Inventories		2,324,759	3,206,919
Trade and bills receivables		2,365,765	3,595,130
Other receivables		820,911	926,925
Tax recoverable		18,347	23,257
Pledged deposits		10,000	10,000
Cash and bank balances		1,336,716	1,894,633
Total current assets		6,876,498	9,656,864
CURRENT LIABILITIES			
Trade and bills payables		3,213,861	4,642,315
Tax payable		125,059	111,124
Other payables and accruals		1,437,466	2,099,535
Provisions		571,627	805,328
Interest-bearing bank and other borrowings	7	2,202,613	2,660,582
Due to the immediate holding company		117,143	–
Due to the ultimate holding company		240,146	347,999
Total current liabilities		7,907,915	10,666,883
NET CURRENT LIABILITIES		(1,031,417)	(1,010,019)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,688,588	1,730,121

	Note	31 March 2007 Unaudited HK$'000	31 December 2006 Audited HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		26,686	21,908
Pensions and other post-employment benefits		18,391	18,171
Total non-current liabilities		45,077	40,079
Net assets		1,643,511	1,690,042
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		390,295	390,295
Reserves		1,161,635	1,210,871
		1,551,930	1,601,166
Minority interests		91,581	88,876
Total equity		1,643,511	1,690,042

Notes:

1. BASIS OF PRESENTATION

As at 31 March 2007, the Group had net current liabilities of approximately HK$1,031 million which included long term bank loans of approximately HK$1,103 million (the "Syndication Loans") which were repayable on demand due to the breach of certain financial covenants of the relevant bank loan agreements. The Group also incurred a loss attributable to equity holders of the parent of approximately HK$67 million for the period ended 31 March 2007.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have implemented the following measures:

(i) On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007.

Further details of the Rights Issue are set out in the Company's announcement dated 15 May 2007.

(ii) On 17 May 2007, the Company obtained an undertaking from TCL Corporation which undertakes that TCL Corporation together with T.C.L. Industries Holdings (H.K.) Ltd ("T.C.L. Industries") and TCL Finance Co., Ltd ("TCL Finance"), will make available to the Group loans of not less than HK$469 million, in aggregate, at each month end for the period from 17 May 2007 to 30 June 2008 or the date on which the issuance of convertible bonds discussed in (iii) below is completed, whichever is earlier.

(iii) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million).

Further details of the issue of the Bonds are set out in the Company's announcement dated 21 May 2007.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of the fund raising exercises in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 March 2007.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and the basis of preparation adopted in the preparation of these financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2006.

3. SEGMENT INFORMATION

An analysis of the Group's turnover and profit/(loss) from operating activities by principal activities for the three months ended 31 March 2007 is as follows:

	Turnover		Profit/(loss) from operating activities	
	2007	**2006**	**2007**	**2006**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing Operations				
Television	4,445,734	7,095,192	40,118	(17,268)
Audio-visual	473,143	290,144	7,822	(1,255)
Others	100,149	130,237	4,231	(4,890)
	5,019,026	7,515,573	52,171	(23,413)
Discontinued Operation				
Computer	–	572,762	–	11,636
	5,019,026	8,088,335	52,171	(11,777)
Interest income			5,550	7,853
Corporate expenses			(50,560)	(21,808)
Finance costs			(43,256)	(63,465)
Share of profits and losses of:				
Jointly-controlled entities			(1,368)	(399)
An associate			131	–
Fair value losses of equity investments at fair value through profit or loss			–	(8,601)
Loss before tax			(37,332)	(98,197)
Tax			(28,694)	(39,657)
Loss for the period			(66,026)	(137,854)

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Three months ended 31 March	
	2007	**2006**
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the period	2,459	2,370
Current – Elsewhere	20,234	31,687
Deferred	6,001	5,600
Total tax charge for the period	28,694	39,657

5. **DIVIDEND**

The directors do not recommend the payment of any dividend in respect of the three months ended 31 March 2007 (2006: Nil).

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

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

	Three months ended 31 March	
	2007	**2006**
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in basic and diluted loss per share calculation:		
Continuing operations	(67,280)	(150,322)
Discontinued operation	–	11,194
	(67,280)	(139,128)

	Number of shares Three months ended 31 March	
	2007	**2006**
Shares		
Weighted average number of ordinary shares in issue during the period used in basic and diluted loss per share calculation	3,902,951,727	3,902,951,727

Diluted loss per share amount for the period ended 31 March 2007 and 31 March 2006 have not been disclosed, as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

7. **INTEREST-BEARING BANK AND OTHER BORROWINGS**

	31 March 2007	**31 December 2006**
	(unaudited)	(audited)
	HK$'000	*HK$'000*
Current		
Bank overdrafts – secured	–	53,048
Bank loans – secured	–	6,475
Bank loans – unsecured, on demand	1,103,467	1,114,831
Bank loans – unsecured	462,117	412,159
Advances from banks as consideration for factored receivables and discounted bills	375,119	764,384
Trust receipt loans – secured	9,338	6,785
Trust receipt loans – unsecured	64,955	79,327
Other loan – unsecured	36,721	36,546
Loan from an associate – unsecured	150,896	187,027
	2,202,613	2,660,582

Notes:

(a) As at 31 March 2007, the Group's overdraft facilities amounting to nil (31 December 2006: overall facilities amounting to HK$53,048,000, of which HK$53,048,000 had been utilized as at the balance sheet date, are secured by the pledge of certain of the Group's inventories amounting to HK$53,292,000).

(b) As at 31 March 2007, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to HK$10,000,000 (31 December 2006: time deposits and property, plant & equipment amounting to HK$10,000,000 and HK$92,834,000 respectively).

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

(d) Except for unsecured bank loans of HK$462,117,000 (31 December 2006: HK$412,159,000), loan from an associate of HK$150,896,000 (31 December 2006: HK$187,027,000) and the other loan of HK$36,721,000 (31 December 2006: HK$36,546,000), all other borrowings of the Group bear interest at floating rates.

In addition, TCL Corporation, the ultimate holding company, has guaranteed certain of the Group's bank loans up to HK$384,108,000 (31 December 2006: HK$315,657,000) as at the balance sheet date.

4. MATERIAL CHANGE

Save as disclosed in the results announcement of the Company for the three months ended 31 March 2007 dated 1 June 2007 and below, as at the Latest Practicable Date, the Directors were not aware of any other material change in the financial or trading position or outlook of the Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up:

(i) On 13 February 2007, the Company and Thomson S.A. entered into the master resolving and settlement agreement regarding the resolution of the Group's loss-making European operation.

(ii) On 15 May 2007, the Company proposed to raise not less than HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary Shares and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary Shares at a subscription price of HK$0.4 per Share on the basis of 1 Rights Share for every 2 existing Shares. Pursuant to the Underwriting Agreement dated 15 May 2007, the Underwriter shall subscribe for any Rights Shares not taken up by Qualifying Shareholders on or before the Latest Acceptance Time. Further details of the Rights Issue are set out in the Rights Issue Announcement and in this circular.

(iii) On 17 May 2007, the Company obtained an undertaking from TCL Corporation that TCL Corporation, together with TCL Industries and TCL Finance Co., Ltd ("TCL Finance"), will make available to the Group loans of not less than HK$469 million, in aggregate, at each month end for the period from 17 May 2007 to 30 June 2008 or the date on which the issuance of the Bonds is completed, whichever is earlier. Such undertaking was made in connection with the working capital sufficiency confirmation disclosed in section 6 of this appendix.

(iv) On 18 May 2007, the Company entered into the Purchase Agreement with the Purchaser, whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the Bonds with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). Further details of the issue of the Bonds are set out in the Bonds Announcement and in this circular.

(v) On 24 May 2007, a declaration of insolvency was filed by TTE Europe SAS ("TTE Europe"), a major subsidiary of the Company. On 29 May 2007, the French court appointed a judicial liquidator to take control over TTE Europe after the insolvency filing. The liquidator is then the sole person responsible for winding-up TTE Europe by liquidating its assets and making payment to its creditors. The Company has been advised that under French law, a shareholder is normally not held responsible for the liabilities of subsidiaries in judicial liquidation. The audited consolidated financial statements of the Group for the year ended 31 December 2006 included the financial statements of TTE Europe which were prepared on a liquidation basis of accounting and therefore already incorporated the financial impact of TTE Europe's liquidation on the Group. Save as disclosed in the financial statements of the Group for the year ended 31 December 2006, the insolvency filing of TTE Europe is not expected to have a material adverse financial impact on the Group.

5. INDEBTEDNESS

At the close of business on 31 March 2007, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the Group had outstanding unsecured bank loans of approximately HK$1,566 million, advances from banks as consideration for factored receivables of approximately HK$375 million, unsecured and secured trust receipt loans of approximately HK$65 million and HK$9 million respectively, a loan from an associate of approximately HK$151 million, a loan from the immediate holding company of the Company of approximately HK$117 million, a loan from the ultimate holding company of the Company of approximately HK$240 million and unsecured other loan of approximately HK$37 million.

The secured bank loans of the Group were secured by the pledge of certain of the Group's time deposits amounting to HK$10 million. In addition, the ultimate holding company of the Company has guaranteed certain bank loans of the Group of up to approximately HK$384 million as at 31 March 2007.

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 March 2007, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL

The Directors are of the opinion that despite the breach of certain financial covenants by the Company of the relevant bank loan agreements as at 31 December 2006, after taking into account the present internal financial resources of the Group, the available banking facilities, the filling of a declaration of insolvency by TTE Europe and the estimated net proceeds from the Rights Issue and the Bond Issue, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

7. FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2006

The year under review was a challenging one for the Group as well as for the television ("TV") industry globally. The rapid transition from cathode ray tube ("CRT") to flat panel TVs and from analogue to digital technology across different markets tested all manufacturers. During the year under review, the Group had developed right strategies to master these market changes and had completed the integration of the international TV business acquired from Thomson in 2004. These efforts put pressure on the Group's operations and greatly impacted its profitability.

Restoring profitability has been the Group's primary target. Strategies were implemented by the Group to deal with market changes and to strengthen the Group's international competitiveness. However, the management was disappointed to see the operating loss in the European market widen.

Separately, the Group continued to rationalize its operations and resources along its core global TV business. Thus, the Group disposed of its personal computer ("PC") business in September 2006 to TCL Corporation, its parent company. In addition, to effectively address the continued poor results in Europe, the Group implemented a wide-ranging restructuring plan beginning in October 2006, and incurred and accrued HK$695 million costs, net of related gains, in connection with the restructuring and winding-down of the European business. The operating loss in this market together with the restructuring costs depleted the Group's profits from other markets, leading to a loss of HK$2,500 million for the year ended 31 December 2006.

Review of Operations

Revenue from TV sales decreased by 12% to HK$26,368 million during the year under review. The Group sold a total of approximately 22 million TV sets, representing a decrease of 4% as compared to the previous year. High-end TV models, including digital light processing ("DLP"), flat panel liquid crystal display ("LCD") and plasma TVs, accounted for 36% of the Group's TV revenue, as compared to 30% in the previous year. Unit sales of such high-end TVs outpaced overall sales by far, posting a surge of 27% in 2006.

Seeing enormous potential from flat panel TVs, the Group placed strong focus on, and committed significant resources to, product design and development, supply chain management and sales and marketing in order to capture opportunities in this high-growth market segment. More than 174 models were launched during the reviewing year, of which 84 were high-end models. The Group's market share in the flat panel TV segment rose with its extended product offering.

The PRC Market

Competition in the PRC continued to be fierce as domestic and foreign TV manufacturers flooded the market, quickening the pace of new product introduction and intensifying competition in pricing. This led to rapid price declines in all product categories, in particular for LCD TVs. Seeing this, some consumers delayed their purchases in the hopes of further price reductions.

Despite the intense competition, the Group maintained its position as the market leader in 2006. Sales revenue from the PRC market amounted to HK$10,459 million, representing a decrease of 5% and accounting for 40% of the total TV revenue. The Group sold a total of 7,976,000 TV sets in the PRC. Although this was a 14% decline compared with 2005, it was within the overall trend of the market. Thus, the Group maintained its leading position in the PRC market, with a share of 18% (source: Ministry of Information Industry (January – December 2006)).

The Group also achieved good performance in terms of the overall product mix, with high-end TV sales accounting for 35% of total TV sales revenue, as compared to 19% for 2005. In terms of unit sales, the Group grew LCD TV sales by 174% year-on-year. Thus, according to the China market monitor report of November 2006, the Group achieved a 10% share of the LCD segment in the PRC.

Although the increase in high-end TV sales helped to boost the average product selling price by 10%, the overall profit margin for the PRC market decreased. This was due to the fact that the gross margin for high-end goods such as LCD TVs was and remains lower than that of CRT TVs.

In view of the rapid shift in consumer preference from CRT TVs to flat panel TVs, the Group invested further in the development of high-end TVs and introduced more high-end products, such as its 47" large display LCD TV model, to capture the significant opportunity represented by this growing market.

European and North American Markets

The European and North American markets continue to challenge the Group. Although performance in North American market was in line with expectation, performance in Europe continued to be well below management expectations. Thus, the Company recorded a significant operating loss and provision for the business restructuring.

Sales revenue generated from these two markets in aggregate amounted to HK$10,421 million, representing a year-on-year decrease of 28% and accounting for 39% of the Group's total TV revenue, as compared to 48% in the previous year. A total of 4,775,000 TV sets were sold in these markets during the year under review.

European Market

The European market is one of the world's most dynamic markets in that consumers are migrating at an unprecedented pace towards flat panel LCD TVs. In this highly competitive operating environment, the Group experienced an extremely difficult year. The Group's cost advantages, which had helped it to become a global leader in the CRT market, did not translate into the same market leadership in the high-end flat panel TV market.

Due to the heavy losses in the first part of the year, the Group decided to implement a wide-ranging restructuring plan to close certain loss-making business lines and re-launch the operation under a new, smaller, leaner business model. Going forward, the Group plans to work only with a limited number of key customers, major accounts and markets with the greatest potential, which will enable it to rationalize product lines and its supply chain. The restructuring process began in October 2006 and completion is expected to be in the first half of 2007.

North American Market

In the North American market, price pressure continued to prevail in mature segments, such as CRT TV and CRT-based Panel TV ("PTV"). In the DLP segment, brand image became another crucial competitive factor, though pricing still remained as the primary consideration. In the flat panel segment, product price and brand recognition were of equal importance.

Following the year's reform and hard work in 2005, the Group recorded sales and operating performance were in line with management's expectation for the full year results of 2006. This attests to the Group's capability of managing development efficiently in key aspects such as product development, sales and marketing and cost management.

Both sales volume and sales value exceeded the Group's targets. Remarkable growth was seen in the LCD and CRT PTV segments. According to Synovate data on consumer purchases of TVs in October 2006, the Group's RCA brand ranked the third in the U.S. market with a market share of 9%.

The Group expanded its offering of LCD models in North America and introduced its first model in the plasma segment in 2006. A total of 49 new product models were launched, of which 21 were high-end models. Sales of high-end TVs accounted for 58% of the sales revenue, compared to 47% in 2005.

During the year under review, the Group maintained its focus on key products that are well-received by the market and served key customers that generated higher margin purchases. Meanwhile, the Group continued to communicate and reinforce its product positioning as "Affordable Digital Television for Every Room and Budget", with the aim of offering a compelling combination of good picture quality at an affordable price through its marketing activities.

In addition, the Group put emphasis on enhancing profitability by adopting effective cost control measures, such as reduced inventory, better supply chain management and an enhanced product mix. During the year, the Group enjoyed an overall reduction in R&D expenses on a company-wide basis with better manpower and resources allocation.

Emerging Markets and Strategic OEM Business

The emerging market and strategic original equipment manufacturing ("OEM") business achieved the Group's targets, posting stable and satisfactory sales volume growth in the year under review. Total TV unit sales of these two markets rose by 23% to 9,409,000 sets as compared with last year. Sales revenue of these two segments grew by 24% to HK$5,488 million, accounting for 21% of the Group's total TV sales revenue. However, during the year the emerging market business recognized provisions for bad debts and assets write-down of appropriately HK$132 million in total arising from restructuring of operations in certain regions including Russia, India, Thailand and Indonesia. These two divisions, in aggregate, therefore incurred an operating loss of HK$70 million.

An increasing number of new international market entrants made competition in the emerging markets keener than in the past. Prices for both CRT TVs and flat panel TVs decreased, thereby leading to declines in the overall average selling price despite the fact that sales of higher-priced LCD grew as a percentage of total sales.

In line with its strategy and market trends, the Group focused on key markets such as India, Russia and Brazil, and was one of the top-tier players in Vietnam, the Philippines and Australia.

In the strategic OEM business, the Group recorded sustainable growth for the year under review. The Group extended the business scope to its major international clients with a mixed original design manufacturer ("ODM") and OEM approach, using TCL-designed chassis. Strong sales growth was seen in the Latin American as well as countries in South East Asia. The Group continued to maintain amicable strategic relationships with its existing clients. On top of that, the Group will seek every possible opportunity to develop new accounts and explore the potential to work with internationally renowned customers to produce theme-designed TVs to broaden its product variety.

PC Business

In line with its strategy of focusing resources on its core TV business, the Group disposed of its PC and other non-core businesses to TCL Corporation in early September 2006. As a result, only eight months' results of this business unit were consolidated into the full year results of the Group in 2006 as a discontinued operation. Sales from the PC business amounted to HK$1,568 million, accounting for 5% of the Group's total revenue in 2006.

8. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

While competition will remain keen in the consumer electronics industry, the outlook of the Group for 2007 is positive. To capture new opportunities arising from the migration to flat panel TV and digital TV, the Group is focusing additional resources on these two areas, in particular on LCD TV. It is determined to improve its product development capability and develop itself into a competitive ODM organization. The creation of an innovation centre to lead product development is just one of the initiatives demonstrating the Group's commitment.

The Group is moving towards its goal of establishing global cost advantage in small-size products (products of 26 inches or less), while achieving feature and industrial design differentiation in mid-range and high-end products. Cost reductions in manufacturing have been achieved through component and software standardization, together with a relentless effort to improve overall product and supply chain quality. The Group is also implementing plans to enhance the flexibility and efficiency of its supply chain. Some of the key areas of focus include improving information flow from sales to raw material inventory, thereby increasing organizational transparency, together with re-aligning production workflows, stepping up the accountability of each factory and shortening the overall product turnaround time.

Although the PRC market experienced a contraction in demand in 2006, current signs indicate that it will return to a pattern of growth. It is expected that consumer desire to purchase higher quality TVs, whether higher end CRT TV or flat panel TV, will increase in the lead-up to the 2008 Olympics Games. This grand event is expected to produce a positive consumer sentiment which will largely offset the current slowdown in consumption.

As a result of the restructuring of the Group's Europe business, sales for Europe in 2007 will decrease in terms of both volume and revenue. Despite this, the new business model is expected to reduce the loss attributable to Europe, as operating costs will be significantly reduced after the business restructuring.

The Group expects to see continued improvements in the North American operation. Currently, projection TVs (including microdisplay rear projection TV and CRT-based TVs) account for a large proportion of the sales mix in this market. Sales of LCD TVs are still in early days. The Group will improve its position in the LCD TV segment in the next few years with more marketing campaigns as well as further improvements in cost structure.

Emerging Markets and the Strategic OEM business offer ample room for growth, though they are expected to grow at a relatively slower pace. As competition continues to be mainly on pricing, profit margins will be squeezed further in 2007.

Although there was shrinkage in the market for CRT TVs, it remains a sizable business by volume, as market demand is forecasted to stay at 122 million sets per annum. There has been a trend for global TV manufacturers with sizeable scale to reduce or stop production of CRT TVs. This business has always contributed a stable revenue and profit stream for the Group and, as the demand for CRT TVs still represents a substantial market, the Group is poised for brisk growth in the OEM business at a global level. Its largest manufacturing facilities are in the PRC, where a complete CRT manufacturing industry chain, including key raw materials, components and TV sets, is present.

With its competitive cost advantages, strong research and development capability, effective sales and marketing strategies, and strong brand positions, with the right strategies, the Group will be well placed to maintain a steady global market share and enhance its competitiveness.

The following unaudited pro forma financial information prepared in accordance with Paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purposes only, and is set out here to provide Shareholders with further information about how the Rights Issue might have affected the net tangible assets of the Group after completion of the Rights Issue. Although reasonable care has been exercised in preparing the said information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

(a) Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Rights Issue as if it had taken place on 31 March 2007. The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited consolidated net tangible assets of the Group as at 31 March 2007, as extracted from the published results announcement of the Group for the three months ended 31 March 2007 and is adjusted for the effect of the Rights Issue.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Rights Issue.

	Unaudited consolidated net tangible assets of the Group as at 31 March 2007 *(Note 1)* *HK$'000*	Estimated net proceeds from the Rights Issue *(Note 2)* *HK$'000*	Unaudited pro forma adjusted consolidated net tangible assets of the Group after completion of the Rights Issue *HK$'000*	Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Rights Issue *(Note 3)* *HK$*
Based on 1,951,475,863 Rights Shares issued	1,365,450	773,900	2,139,350	0.37

Notes:

1. The unaudited consolidated net tangible assets of the Group as at 31 March 2007 is extracted from the published results announcement of the Company for the three months ended 31 March 2007 as set out in Appendix I to this circular, which is based on the unaudited equity attributable to equity holders of the parent as at 31 March 2007 of HK$1,551,930,000 less goodwill and other intangible assets as at 31 March 2007 of HK$119,638,000 and HK$66,842,000 respectively.

2. The estimated net proceeds from the Rights Issue of approximately HK$773.9 million are based on 1,951,475,863 Rights Shares to be issued at a subscription price of HK$0.40 per Rights Share and after deduction of estimated related expenses of approximately HK$6.7 million.

3. The calculation of the unaudited pro forma consolidated net tangible assets per Share is based on 5,854,427,590 shares which comprise 3,902,951,727 Shares in issue as at 31 March 2007 and 1,951,475,863 Rights Shares to be issued.

4. The unaudited pro forma consolidated net tangible assets is prepared on the assumption that no Outstanding Options exercisable are exercised on or before the Record Date.

5. No adjustment has been made to reflect the adjustments to the exercise price and number of shares issuable upon exercise of the Outstanding Options consequent to the Rights Issue. In addition, no adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 March 2007, including the entering into of the Purchase Agreement regarding the Issue of the Bond.

(b) Report on the unaudited pro forma financial information

The following is the text of a report received from Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ERNST & YOUNG
安 永 會 計 師 事 務 所

5 June 2007

The Directors
TCL Multimedia Technology Holdings Limited
13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan
Hong Kong

Dear Sirs,

TCL Multimedia Technology Holdings Limited
Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of TCL Multimedia Technology Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") set out on pages 154 to 155 in Appendix II of the Company's circular dated 5 June 2007 (the "Circular") in connection with the proposed rights issue of the Company (the "Rights Issue"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the consolidated net tangible assets of the Group if the Rights Issue had taken place at 31 March 2007.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of: i) the financial position of the Group as at 31 March 2007 or any future dates; or ii) the consolidated net tangible assets per share of the Group as at 31 March 2007 or any future dates.

Opinion

In our opinion:

i) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

ii) such basis is consistent with the accounting policies of the Group; and

iii) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL AND OPTIONS

(a) Share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue (assuming all Outstanding Options are exercised on or before the Record Date) will be, as follows:

		HK$
Authorised share capital:		
8,000,000,000	Shares as at the Latest Practicable Date	800,000,000
14,000,000,000	Shares upon approval of increase in authorised share capital by Shareholders at the EGM	1,400,000,000
22,000,000,000		2,200,000,000
Issued and fully paid share capital:		
3,902,951,727	Shares in issue as at the Latest Practicable Date	390,295,173
135,070,000	Shares to be issued upon exercise of all Outstanding Options on or before the Record Date	13,507,000
2,019,010,863	Rights Shares to be issued upon completion of the Rights Issue (assuming all Outstanding Options are exercised on or before the Record Date)	201,901,086
1,641,379,310	Shares to be issued upon full conversion of the Bonds at the maximum Effective Initial Conversion Price	164,137,931
7,698,411,900		769,841,190

All the issued Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares in issue on the date of allotment of the Rights Shares in fully-paid form.

The Company had no outstanding convertible debt securities in issue as at the Latest Practicable Date.

There has been no alteration to the authorised and issued share capital of the Company since the end of the last financial year of the Company, being 31 December 2006, up to the Latest Practicable Date.

(b) Share options

Details of the Outstanding Options as at the Latest Practicable Date are as follows:

Name of grantee	Number of underlying shares subject to Outstanding Options	Date of grant	Exercise price *HK$*	Exercise period
Directors				
Executive directors				
Li Dongsheng	5,000,000	31-May-05	1.400	Note 1
Lu Zhongli	2,500,000	31-May-05	1.400	Note 1
Wang Kangping	1,400,000	31-May-05	1.400	Note 1
Shi Wanwen	2,600,000	31-May-05	1.400	Note 1
Yuan Bing	330,000	31-May-05	1.400	Note 1
	11,830,000			

(b) Share options *(Continued)*

Name of grantee	Number of underlying shares subject to Outstanding Options	Date of grant	Exercise price *HK$*	Exercise period
Non-Executive directors				
Albert Thomas da Rosa, Junior	300,000	31-May-05	1.400	Note 1
Independent Non-Executive directors				
Tang Guliang	300,000	31-May-05	1.400	Note 1
Wang Bing	300,000	31-May-05	1.400	Note 1
	600,000			
Other employees	122,340,000	31-May-05	1.400	Note 1
	135,070,000			

Note 1 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third are exercisable after the expiry of 18 months from the date of grant, and the remaining one-third are exercisable after the expiry of 27 months from the date of grant, up to 30 November 2008.

Upon the Rights Issue becoming unconditional, the exercise price of and/or the number of Shares comprised in the Outstanding Options may be subject to adjustments.

Save as disclosed in this paragraph 2(b) and the Bond Issue, the Company did not have any other options, warrants or other convertible securities or rights affecting the Shares and no capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

There is no arrangement under which future dividends are waived or agreed to be waived.

3. DISCLOSURE OF INTERESTS BY DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

(a) Interests in shares of the Company

Directors	Capacity	Number of Shares held	Approximate 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) Interests in shares of associated corporations of the Company

Directors	Name of associated corporation	Capacity	Number 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%
Wang Kangping	TCL Communication Technology Holdings Limited	Beneficial owner	80,000	0.001%
Shi Wanwen	TCL Corporation	Beneficial owner	2,283,465	0.09%
Yuan Bing	TCL Communication Technology Holdings Limited	Beneficial owner	2,116,000	0.04%

(d) Interests in share options of associated corporations of the Company

Directors	Name of associated corporation	Capacity	Number of underlying shares subject to shares options	Approximate 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 in this paragraph 3, as at the Latest Practicable Date, none of the Directors and 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 the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

4. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

(a) Interests in shares of the Company

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(i) Long positions

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289	38.74%
Thomson S.A.	Beneficial Owner	386,888,095	9.91%
Deutsche Bank Akliengesellschaft	Beneficial Owner	824,614	0.02%

Notes:

(a) TCL Corporation is deemed to be interested in 1,512,121,289 shares held by TCL Industries, its direct wholly owned subsidiary, for the purpose of the SFO.

(b) Thomson S.A. is deemed to be interested in 67,610,864 shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purpose of the SFO.

(ii) Short positions

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of issued share capital of the Company
Deutsche Bank Akliengesellschaft	Beneficial Owner	750,000	0.02%

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

Name of Shareholder	Nature of interest	Number of Shares held
Deutsche Bank Akliengesellschaft	Beneficial Owner	2,052,750,000

Save as disclosed in this paragraph 4(a) to (b), there is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the Latest Practicable Date, had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) Interests in subsidiaries of the Company

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a subsidiary 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)	• Science City Development Public Co., Ltd.(南方科學城發展股份有限公司)	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責任公司)	47.86%
3. P.T. 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%

Name of subsidiary	Name of substantial shareholder	Percentage of holding
5. TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL王牌電器(無錫)有限公司)	• 無錫市電儀資產經營有限公司	30%
6. TCL Digital Science and Technology (Wuxi) Company Limited (TCL數碼科技(無錫)有限公司)	• 無錫市電儀資產經營有限公司	30%
7. Sizzon Pte Ltd.	• Junaide Sungkono	20%

Save as disclosed in this paragraph 4(c), there is no person (not being a Director or chief executive of the Company) known to the Directors or chief executive of the Company, who, as at the Latest Practicable Date, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of a subsidiary of the Company.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Group.

None of the Directors has any direct or indirect interests in any assets which have 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 since 31 December 2006, being the date to which the latest published audited consolidated accounts of the Group were made up.

None of the Directors was or will be given any compensation for loss of office or otherwise in connection with the Underwriting Agreement, the Rights Issue and/or the Whitewash Waiver.

As at the Latest Practicable Date, none of the Directors had a material personal interest in any material contract entered into by TCL Industries.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective associates have any interests in any business which may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling Shareholder).

7. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Group, were entered into by the Company or its subsidiaries during the period commencing two years preceding the date of the Rights Issue Announcement and up to the Latest Practicable Date and are or may be material:-

(a) sale and purchase agreement entered into between the Company and TCL Industries dated 21 June 2006 regarding the sale and purchase of (i) the entire issued share capital of TCL Computer Technology (BVI) Co., Ltd.; (ii) the entire issued share capital of TCL Education Web Limited; and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. (深圳市TCL工業研究院有限公司) and supplemented by a confirmation letter dated 8 November 2006 at the consideration of HK$374 million (as adjusted based on the net asset value attributable to the sale shares as at the completion date of the sale and purchase agreement). Further details of the sale and purchase agreement are set out in an announcement of the Company dated 23 June 2006 and a circular of the Company dated 17 July 2006;

(b) the term sheet entered into between the Company, TTE Corporation, TTE Europe SAS and Thomson S.A., dated 12 October 2006, and completed by a) Master Resolving and Settlement Agreement dated 13 February 2007; b) Amendment to Amended and Restated Agreement (Angers), signed 13 February 2007, between TTE Corporation and Thomson S.A.; c) Trademark License (SABA) Agreement signed 13 February 2007 between Thomson S.A. and TTE Corporation; d) Amendement to Amended and Restated Thomson Trademark License Agreement between Thomson S.A. and TTE corporation, signed 13 February 2007; Amended and Restated Thomson Trademark Agreement dated on July 1, 2006, between TTE Corporation and Thomson S.A., regarding restructuring of TTE Europe SAS. Further details of the term sheet are set out in an announcement of the Company dated 27 October 2006;

(c) the financial services framework agreement entered into between the Company, TCL Corporation and the Finance Company dated 27 October 2006 with a view to setting out, among other things, the principal terms of the Deposit Services, the finance services, etc.. Further details of the financial services framework agreement are set out in the announcements of the Company dated 9 March 2006, 27 October 2006 and a circular of the Company dated 27 March 2006;

(d) the Underwriting Agreement; and

(e) the Purchase Agreement relating to the US$140,000,000 4.5% Convertible Bonds due 2012 entered into between the Company and Deutsche Bank AG, London dated 18 May 2007.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group or to which the Company or any of its subsidiaries was, or might become, a party.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts whose statements have been included in this circular:

Taifook Capital Limited	a licensed corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity for the purpose of the SFO
Ernst & Young ("E&Y")	Certified public accountants

Taifook Capital Limited and E&Y have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of their letters or reports or references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Taifook Capital Limited and E&Y had 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.

None of Taifook Capital Limited and E&Y have any direct or indirect interests in any assets which have been, since 31 December 2006 (being the date to which the latest published audited consolidated accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of Taifook Capital Limited and E&Y were materially interested, directly or indirectly, in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

10. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Rights Issue Announcement; (ii) are continuous contracts with a notice period of 12 months or more; (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (iv) are not determinable by the Group within one year without payment of compensation (other than statutory compensation).

11. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

The secretary of the Company is Ms. Pang Siu Yin who is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. She is also a member of the Chartered Institute of Arbitrators, the United Kingdom and the Hong Kong Securities Institute.

The qualified accountant of the Company is Mr. Sin Man Lung who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

12. SHAREHOLDINGS AND DEALINGS

(a) As at the Latest Practicable Date, the Company did not own or have any interest in any shares, convertible securities, warrants or options of TCL Industries, or any outstanding derivative in respect of securities in TCL Industries nor had the Company dealt for value in any shares, convertible securities, warrants or options of TCL Industries, or any outstanding derivative in respect of securities in TCL Industries during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(b) Save as those disclosed in the section headed "Disclosure of interests by Directors" in this appendix, none of the Directors owned or had any interest in any shares, convertible securities, warrants or options of the Company and/or TCL Industries, or any outstanding derivative in respect of securities in the Company and/or TCL Industries as at the Latest Practicable Date nor had any of the Directors dealt for value in any shares, convertible securities, warrants or options of the Company and/or TCL Industries, or any outstanding derivative in respect of securities in the Company and/or TCL Industries during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(c) None of the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code owned or had any interest in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(d) None of the subsidiaries of the Company and pension funds of the Company or of a subsidiary of the Company owned or controlled any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(e) No fund managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company had any interest in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company as at the Latest Practicable Date nor had any of them dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(f) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (aa) the Company; or (bb) any person who is associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code; or (cc) TCL Industries or any person acting in concert with it.

(g) TCL Industries and parties acting in concert with it and any other Shareholders who are involved in or interested in the Underwriting Agreement, the Rights Issue and the Whitewash Waiver will abstain from voting on the ordinary resolution approving the Whitewash Waiver. Save as aforesaid, as at the Latest Practicable Date, none of the Directors had indicated their intention, in respect of their own beneficial shareholdings, if any, to vote for or against the Whitewash Waiver.

(h) Save for the 1,534,109,289 Shares held by TCL Industries and parties acting in concert with it and the Outstanding Options attaching thereto subscription rights to subscribe for 8,130,000 Shares held by the parties acting in concert with TCL Industries, none of TCL Industries and parties acting in concert with it were interested in or owned or controlled any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company as at the Latest Practicable Date. None of TCL Industries and parties acting in concert with it had dealt for value in any Shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company during the period beginning six months prior to the date of the Rights Issue Announcement and ending on the Latest Practicable Date.

(i) As at the Latest Practicable Date, as far as the Directors are aware, none of the Shareholders had irrevocably committed themselves to vote for or against the Rights Issue and/or the Whitewash Waiver.

(j) As at the Latest Practicable Date, save for the Underwriting Agreement, no agreement, arrangement or understanding (including any compensation arrangement) existed between TCL Industries or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Underwriting Agreement, the Rights Issue or the Whitewash Waiver.

(k) As at the Latest Practicable Date, there was no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the Underwriting Agreement, the Rights Issue or the Whitewash Waiver or otherwise connected with the Underwriting Agreement, the Rights Issue or the Whitewash Waiver.

(l) As at the Latest Practicable Date, any Rights Shares acquired by TCL Industries and parties acting in concert with it in pursuance of the Rights Issue and the Underwriting Agreement were not intended to be transferred, charged or pledged to any other persons.

13. PROCEDURES TO DEMAND A POLL AT GENERAL MEETING

Pursuant to Article 80 of the Company's articles of association, 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.

14. MARKET PRICES

The table below shows the closing price of the Shares as quoted on the Stock Exchange (i) at the end of each of the six calendar months immediately preceding the date of the Rights Issue Announcement; (ii) on the Last Trading Date; and (iii) the Latest Practicable Date.

Date	**Closing price** *(HK$)*
26 October 2006	0.74
30 November 2006	0.62
29 December 2006	0.55
31 January 2007	0.57
28 February 2007	0.59
30 March 2007	0.60
30 April 2007	0.67
Last Trading Day	0.64
Latest Practicable Date	0.67

The highest and lowest closing prices of the Shares as recorded on the Stock Exchange during the period commencing six months preceding the date of the Rights Issue Announcement and ending on the Latest Practicable Date were HK$0.73 on 23 April 2007 and 25 April 2007 and HK$0.53 on 28 December 2006 and 7 March 2007 respectively.

15. CORPORATE INFORMATION

Registered office	Ugland House South Church Street P.O. Box 309 George Town Grand Cayman Cayman Islands British West Indies
The Underwriter	Flat 5, 5/F, TCL Tower 8 Tai Chung Road Tsuen Wan Hong Kong
Company secretary	Ms. Pang Siu Yin
Qualified accountant	Mr. Sin Man Lung
Authorised representatives	Mr. Li Dongsheng Ms. Pang Siu Yin

Independent Financial Adviser to the Independent Board Committee	Taifook Capital Limited 25th Floor New World Tower 16-18 Queen's Road Central Hong Kong
Legal advisers to the Company	*As to Hong Kong law* Cheung, Tong & Rosa Rooms 1621-33, 16/F Sun Hung Kai Centre 30 Harbour Road Hong Kong
Auditors	Ernst & Young Certified Public Accountants 18/F Two International Finance Centre 8 Finance Street Central Hong Kong
Principal share registrar and transfer office	Butterfield Bank (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	Agricultural Bank of China 23/F., Tower 1, Admiralty Center, 18 Harcourt Road, Hong Kong Bank of China (Hong Kong) Limited. 9/F., Bank of China Tower, 1 Garden Road, Hong Kong

Standard Chartered Bank
13/F., Standard Chartered Bank Building
4-4A Des Voeux Road Central, Hong Kong

The Hongkong and Shanghai
Banking Corporation Limited
Level 10, HSBC Main Building,
1 Queen's Road Central, Hong Kong

Nanyang Commercial Bank, Ltd.
G/F, 309 Nathan Road, Kowloon, Hong Kong

16. EXPENSES

The expenses in connection with the Rights Issue, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK$6.7 million and will be payable by the Company.

17. PARTICULARS OF THE DIRECTORS

(a) Name and address

Name	Address	Nationality
Executive Directors:		
Li Dongsheng	Flat H, 6/F., Block 7, Discovery Park, No.398 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	Chinese
Lu Zhongli	Flat A, 12/F., Block 11, Discovery Park, No.398 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	Chinese
Wang Kangping	28, 1st Street, Shuiyunju, Biguiyuan, Beijiao Shunde, Foshan, Guangdong, P.R.C.	Chinese
Shi Wanwen	Room 1201, Hong Hua Hu Li Yuan, Huizhou City, Guangdong, P.R.C.	Chinese

Yuan Bing	Flat A, 12/F., Block 11, Discovery Park, No.398 Castle Peak Road, Tsuen Wan, New Territories, Hong Kong	Chinese
Non-executive Directors:		
Albert Thomas da Rosa, Junior	23/F., Block 31, Baguio Villa, 550 Victoria Road, Pokfulam, Hong Kong	Portuguese and BNO
Independent non-executive Directors:		
Tang Guliang	No.33 Fucheng Road, Haidian District, Beijing, P.R.C.	Chinese
Wang Bing	No.22 Taiping Road, Haidian District, Beijing, P.R.C.	Chinese
Robert Maarten Westerhof	Parklaan 26, 5582 KL Waalre, The Netherlands	Netherlander

(b) Qualification and position held

Executive Directors

Mr. LI Dong Sheng, 49, is the founder and chairman of the Company. He is responsible for formulating corporate strategy and leading the Company's management. He has been awarded the following titles:

1994	"Distinguished Contributor to Development of PRC Electrical Appliance Industry"
1995	"National Excellent Young Entrepreneur"
2000	"Model of National Work Force"
2002	Representative of the 16th Central Committee of the Communist Party
	"CCTV Man of the Year in the Chinese Economy"
	"Annual Innovation Award"

2003	Delegate of the 10th National People's Congress
	One of the most influential entrepreneurs by magazine "China Entrepreneur"
2004	"CCTV Man of the Year in the Chinese Economy"
	One of the worldwide most influential business leaders by Time and CNN
	French National Honor Metal (OFFICIER DE LA LEGION D'HONNEUR)
2005	"CCTV Man of the Year in the Chinese Economy"
	One of the most influential entrepreneurs by magazine "China Entrepreneur"
2006	One of the most influential entrepreneurs by magazine "China Entrepreneur"

Mr. Li has more than 20 years of experience in various aspects of the electronics industry particularly in the manufacture and sales of electronic products. He is an engineer and holds a Bachelor of Science Degree from Huanan Polytechnic University. Mr. Li is the chief executive officer of TTE Corporation ("TTE"), the chairman of TCL Communication Technology Holdings Limited ("TCT") and TCL Corporation ("TCL Corp."). He is also the president of TCL Corporation and a director of a number of subsidiaries of TCL Corporation.

Ms. LU Zhong Li, 61, is director and senior vice president of TCL Corporation. Ms. Lu has over 38 years of experience in financing, taxation, accounting and financial management. Ms. Lu is an accountant, graduated from Hubei University.

Mr. SHI Wan Wen, 40, is the vice president of TCL Corporation, and the chief operating officer of TTE Corporation. Before taking up these positions in June 2005, Mr. Shi was 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 Corp. Mr. Shi holds a Bachelor degree in Wireless Technology from the South China University of Technology.

Mr. WANG Kang Ping, 38, joined TCL Corporation in 2002 and is its deputy vice president. Mr. Wang has over 15 years of experience in the domestic electrical appliances industry. He was the chief engineer in Shandong Hongyi Air-Conditioner Co. Ltd., design manager in Guangdong Kelon Air-Conditioner Co., Ltd., assistant general manager of Kelon (Japan) Co. Ltd., managing director of Guangdong Kelon Air-Conditioner Co., Ltd., deputy vice president of Guangdong Kelon Electrical Holdings Co. Ltd. and president of the domestic electrical appliances department of TCL Corporation. Mr. Wang graduated from Beijing University of Aeronautics and Astronautics and China Europe International Business School, with a Master degree in Business Administration.

Mr. YUAN Bing, 37, 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 in 1999, Mr. Yuan was 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. Due to his extensive experience in accounting and financial matters, he has been appointed the general manager of the financial control centre and is now the chief financial controller of TCL Corporation overseeing its finance department. From January 2002 to August 2005, Mr. Yuan was the president of the Strategic Development Department of TCL Corporation.

Non-executive Directors

Mr. Albert Thomas DA ROSA, Junior, 53, is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is also a fellow of the Chartered Institute of Arbitrators and a member of the Hong Kong Securities Institute. He graduated with a Bachelor's Degree in laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also non-executive director and company secretary of certain other companies listed on the Stock Exchange. He also serves as a member of the Solicitors Disciplinary Tribunal Panel, the Academic and Accreditation Advisory Committee of the Securities and Futures Commission and the Panel of the Board of Review (Inland Revenue) respectively.

Independent non-executive Directors

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

Mr. WANG Bing, 39, graduated from China Europe International Business School with a Master's degree in business administration. Mr. Wang has over 10 years of experience in finance, investment, operation in capital market and assets management and is the chief executive officer of Dingtian Assets Management Co. Ltd.

Mr. Robert Maarten WESTERHOF, 64, has over thirty years' experience in the electronics industry. He had been 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 at the Erasmus University of Rotterdam. He is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong from the date of this circular up to and including 9 July 2007, the last day for payment and acceptance of the Rights Shares and also be available at the EGM and the same will be uploaded at the Company's website (www.tclhk.com) and website of the Securities and Futures Commission of Hong Kong (www.sfc.hk) from the date of this circular up to and including 9 July 2007:

(i) this circular;

(ii) the memorandum and articles of association of each of the Company and TCL Industries;

(iii) the letter from the Independent Board Committee, the text of which is set out on page 38 of this circular;

(iv) the letter from Taifook Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 39 to 58 of this circular;

(v) the letter from Ernst & Young setting out its opinion on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out on pages 156 to 157 of this circular;

(vi) the written consents referred to in the section headed "Experts and consents" in this appendix;

(vii) the material contracts referred to in the section headed "Material contracts" in this appendix; and

(viii) the annual reports of the Company for each of the two financial years ended 31 December 2005 and 2006.

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 the Company will be held at Gloucester Room, 2nd Floor, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on 21 June 2007 at 2:30 p.m. Hong Kong for the purpose of considering and, if though fit, passing the following resolutions, with or without amendment, as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the waiver (the "Whitewash Waiver") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of T.C.L. Industries Holdings (H.K.) Limited and parties acting in concert with it, to make a general offer for all the securities of the Company not already owned or agreed to be acquired by them as a result of the Rights Issue (as defined in the circular of the Company dated 5 June 2007 (the "Circular") of which this notice of the Extraordinary General Meeting forms a part) and any Rights Shares (as defined in the Circular) to be taken up under the Underwriting Agreement (as defined in the Circular) and the transactions contemplated therein, be and is hereby approved and any director of the Company be and is hereby authorized to do all such things and take all such action as he may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver."

2. "**THAT** the authorized share capital of the Company be increased from HK$800,000,000 divided into 8,000,000,000 shares of HK$0.10 each ("Shares") to HK$2,200,000,000 divided into 22,000,000,000 Shares of HK$0.10 each by the creation of an additional 14,000,000,000 Shares of HK$0.10 each ("Capital Increase") and any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things as he may deem necessary or desirable for or in connection with the completion of the Capital Increase and the matters contemplated thereunder."

3. "**THAT** (a) the issue of convertible bonds (the "Convertible Bonds") in an aggregate principal amount of US$140 million, the terms and conditions of which are set out in the Purchase Agreement (as defined in the Circular, a copy of the agreement has been produced to the meeting and marked "A" and initialed by the chairman of the meeting for the purpose of identification) and the transactions contemplated under the Purchase Agreement be and are hereby approved and (b) the directors of the Company be and are hereby authorized to execute such documentation and take

such actions on behalf of the Company as they may consider necessary to complete and give effect to the transactions contemplated under the Purchase Agreement and to issue the Convertible Bonds and to allot and issue from time to time and in accordance with the said terms and conditions such number Shares as may be required to be allotted and issued to the holder(s) of Convertible Bonds, upon exercise of the conversion rights attached to the Convertible Bonds."

By order of the Board
Li Dongsheng
Chairman

Hong Kong, 5 June 2007

Notes:

1. The Hong Kong Branch Register of Members of the Company will be closed from 18 June 2007 to 21 June 2007 (both days inclusive), on which date no transfers of Shares will be registered. In order to be eligible to attend and vote at the Extraordinary General Meeting to be held on 21 June 2007, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 15 June 2007.

2. A member of the Company who is a holder of two or more Shares, and who is entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint more than one proxy or a duly authorised corporate representative to attend and vote in his stead. A proxy needs not be a member of the Company. Completion and return of the form of proxy will not preclude a member of the Company from attending the Extraordinary General Meeting and vote in person. In such event, his form of proxy will be deemed to have been revoked.

3. A form of proxy for the Extraordinary General Meeting is enclosed to the notice of Extraordinary General Meeting. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the Extraordinary General Meeting or any adjournment thereof.

4. T.C.L. Industries Holdings (H.K.) Limited and parties acting in concert with it and shareholders of the Company who are involved in or interested in the Whitewash Waiver, the Rights Issue and the Underwriting Agreement will abstain from voting in respect of the ordinary resolution no. 1 above.

As at the date of this notice, the Board is composed of Li Dongsheng, Lu Zhongli, Wang Kangping, Shi Wanwen and Yuan Bing as executive directors, Albert Thomas da Rosa, Junior as non-executive director, and Tang Guliang, Wang Bing and Robert Maarten Westerhof as independent non-executive directors.