IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **TCL Multimedia Technology Holdings Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

SUBSCRIPTION FOR NEW SHARES – CONNECTED TRANSACTION
WHITEWASH WAIVER APPLICATION
AND
CONVENING OF NEW EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company

JPMorgan

J.P. Morgan Securities (Asia Pacific) Limited

Independent financial adviser to the Independent Board Committee and Independent Shareholders

SOMERLEY LIMITED

A letter from the Board is set out on pages 1 to 16 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in connection with the Subscription and the Whitewash Waiver is set out on page 17 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in connection with the Subscription and the Whitewash Waiver is set out on pages 18 to 40 of this circular.

A notice convening the extraordinary general meeting to be held at Salon I & II, Mezzanine Level, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 5:00 p.m. on Friday, 15 August 2008 is set out on pages 142 to 143 of this circular. Whether or not you intend to attend the extraordinary general meeting in person, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon, and lodge it with the Hong Kong branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong, as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof, as the case may be.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

31 July 2008

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

"Assignment Agreement"	the assignment agreement dated 30 May 2008 and entered into between the Company and TCL Industries in relation to the Assignment of Loan and subscription of new Shares
"Assignment of Loan"	the assignment of the Loan to be executed on the completion of the Assignment Agreement
"associate(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Board"	the board of Directors
"Bonds"	the 4.5% secured convertible bonds in an aggregate principal amount of US$140 million issued by the Company as previously disclosed in the Bonds Announcement
"Bonds Announcement"	the announcement of the Company dated 21 May 2007 in relation to the issue by the Company of the 4.5% secured convertible bonds in an aggregate principal amount of US$140 million (approximately HK$1,091,328,000)
"Company"	TCL Multimedia Technology Holdings Limited, a company incorporated under the laws of the Cayman Islands and whose Shares are listed and traded on the Hong Kong Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Director(s)"	the director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"First Circular"	the circular of the Company dated 27 June 2008 in relation to, among other matters, the Subscription, the Assignment of Loan and the First Whitewash Waiver
"First Announcement"	the announcement of the Company dated 6 June 2008 in relation to, among other matters, the Subscription, the Assignment of Loan and the First Whitewash Waiver
"First EGM"	the extraordinary general meeting of the Company held at Salon I & II, Mezzanine Level, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 4:30 p.m. on Tuesday, 15 July 2008

"First Letter of Advice"	the letter of advice received from the Independent Financial Adviser and set out under the section headed "Letter from the Independent Financial Adviser" on pages 18 to 38 of the First Circular
"First Whitewash Waiver"	has the meaning ascribed thereto under the section headed "Application for Whitewash Waiver" in this circular
"Group"	the Company and its Subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Hong Kong Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	an independent board committee of the Board comprising all the non-executive Director and independent non-executive Directors, namely Mr. Albert Thomas da Rosa, Junior, Mr. Tang Guliang, Mr. Robert Maarten Westerhof and Ms. Wu Shihong
"Independent Financial Adviser"	Somerley Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Independent Shareholder(s)"	Shareholders (other than TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan, Ms. Lu and their respective associates and parties acting in concert with any one of them and those Shareholders who are involved in, or interested in the Subscription and the Whitewash Waiver) who are not required to abstain from voting on the resolution to be proposed at the Second EGM to approve the Subscription and the Whitewash Waiver under the Hong Kong Listing Rules and the Hong Kong Takeovers Code, respectively
"Last Trading Day"	Thursday, 29 May 2008, being the last trading day for the Shares immediately before the issue of the First Announcement

"Latest Practicable Date"	Monday, 28 July 2008, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Loan"	the loans in the aggregate amount of HK$117,524,522.3 due and payable by TCL Holdings and TCL International to TCL Industries
"Mr. Leong"	Mr. Leong Yue Wing, a Senior Vice President of TCL Corporation and an executive Director and the Chief Executive Officer of the Company
"Mr. Li"	Mr. Li Dongsheng, the Chairman, President and Chief Executive Officer of TCL Corporation and the Chairman and an executive Director of the Company
"Ms. Lu"	Ms. Lu Zhongli, an executive Director of the Company
"Mr. Yuan"	Mr. Yuan Bing, a Vice President of TCL Corporation and an executive Director and the Chief Financial Officer of the Company
"Notice of First EGM"	the notice convening the First EGM
"Notice of Second EGM"	the notice convening the Second EGM
"PRC"	the People's Republic of China, which for the present purposes only and unless otherwise indicated, excludes Hong Kong, Macau and Taiwan
Second EGM	an extraordinary general meeting of the Company to be convened to consider and approve the Subscription and the Whitewash Waiver
"SFC"	the Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share(s)"	ordinary share(s) of nominal value of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	registered holder(s) of the Share(s)
"Subscribers"	has the meaning ascribed thereto under the section headed "Subscription Agreements – Parties Involved" in this circular

"Subscription"	the subscription of new Shares by the Subscribers pursuant to the terms of the Subscription Agreements
"Subscription Agreements"	share subscription agreements dated 30 May 2008 and entered into between the Company and the Subscribers in relation to the Subscription
"Subscription Price"	HK$0.275, being 15% discount to the average closing price of approximately HK$0.324 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for 10 trading days immediately after the date of the First Announcement, namely, from 10 June 2008 to 23 June 2008
"Subscription Shares"	new Shares to be subscribed by the Subscriber pursuant to the Subscription Agreements
"TCL Corporation"	TCL集團股份有限公司 (TCL Corporation), a joint stock limited liability company incorporated under the laws of the PRC, whose shares are listed and traded on the Shenzhen Stock Exchange
"TCL Holdings"	TCL Holdings (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"TCL International"	TCL International Electronics (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"TCL Industries"	T.C.L. Industries Holdings (H.K.) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of TCL Corporation
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on the Dispensations from Rule 26 of the Hong Kong Takeovers Code in respect of the obligations of TCL Industries and parties acting in concert with it to make a mandatory general offer for all the Shares not already owned or agreed to be subscribed by them which would otherwise arise as a result of completion of the Subscription Agreements
"US$"	United States dollars, the lawful currency of the United States of America

For the purpose of illustration only, amounts denominated in US$ have been translated into HK$ at the rate of US$1: HK$7.7952.

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01070)

Executive Directors:
Li Dongsheng
Leong Yue Wing
Yuan Bing
Shi Wanwen
Wang Kangping
Lu Zhongli

Non-executive Director:
Albert Thomas da Rosa, Junior

Independent non-executive Directors:
Tang Guliang
Robert Maarten Westerhof
Wu Shihong

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

31 July 2008

To the Shareholders

Dear Sir or Madam,

SUBSCRIPTION FOR NEW SHARES – CONNECTED TRANSACTION
WHITEWASH WAIVER APPLICATION
AND
CONVENING OF NEW EXTRAORDINARY GENERAL MEETING

INTRODUCTION

The purpose of this circular is to provide you with (i) further information in relation to the resolution to be proposed at the Second EGM; (ii) details of the Subscription and the Whitewash Waiver; and (iii) any change in the information, recommendation and/or advice as contained in the First Circular.

FIRST EGM

Reference is made to the announcement of the Company dated 15 July 2008. The Company announced that the First EGM of the Company was held at 4:30 p.m. on 15 July 2008, during which:

(1) Resolution No. 1 contained in the Notice of First EGM in relation to the Subscription Agreements and Subscription was considered by the Independent Shareholders and more than 50% of the valid votes cast were in favour of the resolution, the resolution was duly passed as an ordinary resolution;

(2) Resolution No. 2 contained in the Notice of First EGM in relation to the Assignment Agreement and Assignment of Loan was considered by the Independent Shareholders and more than 50% of the valid votes cast were against the resolution, the resolution was not passed as an ordinary resolution; and

(3) each of (i) Resolution No. 3 contained in the Notice of First EGM in relation to the Whitewash Waiver; (ii) Resolution no. 4 contained in the Notice of First EGM in relation to the issue of Shares under the Subscription; and (iii) Resolution No. 5 contained in the Notice of First EGM in relation to the issue of Shares under the Assignment of Loan, was not completed and the First EGM was adjourned at the instance of the Chairman of the First EGM in accordance with the articles of association of the Company.

The Board has decided not to resume the First EGM.

As Resolution No. 2 contained in the Notice of First EGM in relation to the Assignment Agreement and Assignment of Loan was not passed as an ordinary resolution, the completion of the Assignment of Loan will not be taken place and the Loan in the aggregate amount of HK$117,524,522.3 will remain due from TCL Holdings and TCL International, wholly-owned subsidiaries of the Company, to TCL Industries.

The Board was informed by TCL Industries that TCL Industries will not pursue the repayment of the Loan from TCL Holdings and TCL International and the Loan will be maintained with its original terms and conditions, namely, without fixed term of repayment and an amount of HK$24,920,900 out of the Loan is interest bearing, with an interest payable at the rate of 0.257% per month.

On the above premises, the Board is of the view that the non-completion of the Assignment of Loan will not have any impact on the financial position, including cashflow position, and trading prospects of the Group, save that the Group will not be able to lower its financial costs and liabilities and gearing ratio as to the loan.

SECOND EGM

In the event that the completion of the Subscription is not taken place due to the failure to fulfil one or more of the conditions precedent, the Company would have to return the deposit in the amount of HK$1,206,269,010 paid by the Subscribers, together with an interest at the rate of 10% per annum by reference to the actual number of days lapse from the date of actual payment up to the date of return of such deposit, and would not be able to enjoy the benefits to be brought by the Subscription as stated in the section headed "Reasons for the Subscription and Use of Proceeds" below.

For the completion of the Subscription, in addition to Resolution No. 1 contained in the Notice of First EGM in relation to the Subscription Agreements and Subscription, which was duly passed as an ordinary resolution by the Independent Shareholders at the First EGM, a resolution in relation to Whitewash Waiver and a resolution in relation to the issue of Shares under the Subscription has to be passed by the Independent Shareholders as an ordinary resolution.

In this connection, the Board has resolved to convene the Second EGM and propose to Independent Shareholders to consider and, if thought fit, approve the following resolution of the Company:

A resolution (i) approving, confirming and ratifying the Subscription Agreements and Subscription again; (ii) approving the Whitewash Waiver in respect of the Subscription; and (iii) authorizing the issue of Shares under the Subscription as follows:

"**THAT** the execution of the subscription agreements (the "Subscription Agreements") dated 30 May 2008 and entered into between the Company and the Subscribers (as defined in the circular of the Company dated 31 July 2008), respectively, in relation to the subscription of 4,386,432,755 shares of HK$0.10 each in the share capital of the Company (the "Subscription Shares") at a price of HK$0.275 per Subscription Share (the "Subscription"), a copy of each of the Subscription Agreements has been produced to the meeting marked "A" and initialled by the chairman of the meeting for identification purpose and the Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the Directors be and are hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Subscription Agreements and completing the transactions contemplated by the Subscription Agreements with such changes as any such Director(s) may consider necessary, desirable or expedient; and **THAT** the waiver for T.C.L. Industries Holdings (H.K.) Limited and its parties acting in concert from the obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers promulgated by the Securities and Futures Commission to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them as a result of the completion of the Subscription be and is hereby approved; and **THAT** the Directors be and are hereby authorized to issue and allot 4,386,432,755 shares of HK$0.10 each in the share capital of the Company to the Subscribers (or to such other person or persons as they may nominate) upon the completion of the Subscription pursuant to the terms of the Subscription Agreements."

The Cayman Islands legal advisers of the Company has advised that subject to (i) not less than 14 days notice being given to the Shareholders in respect of the Second EGM; (ii) the requisite quorum being present at the Second EGM; and (iii) more than 50% of the valid votes being cast in favour of the resolution to be proposed at the Second EGM by the Shareholders present and entitled to vote, the Second EGM will be duly convened and the resolution to be proposed at the Second EGM will be duly passed as an ordinary resolution.

SUBSCRIPTION AGREEMENTS

Introduction

On 30 May 2008, the Company entered into the Subscription Agreements with the Subscribers, pursuant to which, the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue the Subscription Shares at the Subscription Price for an aggregate amount of HK$1,206,269,010, the aggregate investment amount paid by the Subscribers as deposit for the Subscription.

Date

30 May 2008

Parties involved

(i) the Company, as the issuer;

(ii) TCL Industries, the controlling Shareholder of the Company holding approximately 39.487% of the issued share capital of the Company as of the Latest Practicable Date, will subscribe for 3,259,810,909 Shares for the amount of HK$896,448,000;

(iii) Creative Honor Overseas Limited, a company incorporated under the laws of the British Virgin Islands and wholly-owned by Ms. Anne Lin, who is an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 290,909,090 Shares for the amount of HK$80,000,000;

(iv) Advance Data Service Limited, a company incorporated under the laws of the British Virgin Islands and wholly-owned by Mr. Ma Huateng, who is an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 141,730,909 Shares for the amount of HK$38,976,000;

(v) Top Scale Company Limited, a company incorporated under the laws of the British Virgin Islands and wholly-owned by Mr. Wong Toe Yeung, who is an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 131,566,545 Shares for the amount of HK$36,180,800;

(vi) Info Express Service Limited, a company incorporated under the laws of the British Virgin Islands and wholly-owned by Mr. Tian Suning, who is an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 28,346,181 Shares for the amount of HK$7,795,200;

(vii) Mr. Chen Hong, an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 141,730,909 Shares for the amount of HK$38,976,000;

(viii) Mr. Li, the Chairman, President and Chief Executive Officer of TCL Corporation and the Chairman and an executive Director of the Company, will subscribe for 72,727,272 Shares for the amount of HK$20,000,000;

(ix) Mr. Leong, a Senior Vice President of TCL Corporation and an executive Director and the Chief Executive Officer of the Company, will subscribe for 7,272,727 Shares for the amount of HK$2,000,000;

(x) Mr. Yuan, a Vice President of TCL Corporation and an executive Director and the Chief Financial Officer of the Company, will subscribe for 3,636,363 Shares for the amount of HK$1,000,000;

(xi) Ms. Lu, an executive Director of the Company, will subscribe for 1,090,909 Shares for the amount of HK$300,000;

(xii) Mr. Bo Lianming, an executive director and a Senior Vice President of TCL Corporation and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 5,178,072 Shares for the amount of HK$1,423,970;

(xiii) Mr. Zhao Zhongyao, a Senior Vice President of TCL Corporation and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 8,174,363 Shares for the amount of HK$2,247,950;

(xiv) Ms. Liao Shaoyao, the Head of Accounting of the China Regional Business Center of the Company and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 158,296,472 Shares for the amount of HK$43,531,530;

(xv) Mr. Wang Hui, the Financial Controller of the Global Industry Center of the Company and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 16,293,563 Shares for the amount of HK$4,480,730;

(xvi) Mr. Song Yu, the Head of Financial Information Department of the Global Finance Center of the Company and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 65,341,381 Shares for the amount of HK$17,968,880;

(xvii) Mr. Chan King Yin Colin, the Deputy Financial Controller of the Europe Business Center of TTE Corporation, a subsidiary of the Company and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 1,163,636 Shares for the amount of HK$320,000;

(xviii) Ms. Huang Kaili, the Head of Administration of TCL Corporation and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 26,924,109 Shares for the amount of HK$7,404,130; and

(xix) Ms. Shao Wei, the Head of Enterprise Management Department of TCL Corporation and an independent third party, not connected with the Directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, will subscribe for 26,239,345 Shares for the amount of HK$7,215,820.

Each of the above subscribers is referred herein as a "Subscriber" and collectively the "Subscribers" and are regarded as parties acting in concert with TCL Industries.

Subscription Price

The Subscription Price was agreed after arm's length negotiations between the Company and the Subscribers taking into account, among other factors, the market prices of the Shares after the disclosure of the transactions contemplated under the First Announcement and the Whitewash Waiver and was fixed at HK$0.275, which was a price equal to 15% discount to the average closing price of approximately HK$0.324 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for 10 trading days immediately after the date of the First Announcement, namely, from 10 June 2008 to 23 June 2008.

The Subscription Price of HK$0.275 represents (i) a discount of approximately 24.66% to the closing price of HK$0.365 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange on the Last Trading Day; (ii) a discount of approximately 23.82% to the average closing price of approximately HK$0.361 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the last five trading days up to and including the Last Trading Day; (iii) a discount of approximately 25.07% to the average closing price of approximately HK$0.367 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the last 10 trading days up to and including the Last Trading Day; and (iv) a discount of approximately 5.17% to the closing price of HK$0.290 per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange on the Latest Practicable Date.

An aggregate sum of HK$1,206,269,010 has been paid in cash by the Subscribers as deposit for the Subscription, which (i) was the aggregate investment amount agreed to be paid by the Subscribers for the Subscription; (ii) was agreed after arm's length negotiations between the Company and each of the Subscribers; (iii) carried an interest payable in cash at the rate of 10% per annum by reference to the actual number of days lapse from the date of actual payment up to the date of completion of the Subscription or the date of return of such deposit in the event that the Subscription does not become unconditional, as the case may be; and (iv) shall constitute a good discharge for the Subscribers of its payment obligation of the consideration for the Subscription.

Number of Subscription Shares

The number of Subscription Shares will be 4,386,432,755, which is arrived at by dividing the above deposit in the amount of HK$1,206,269,010 paid by the Subscribers by the Subscription Price of HK$0.275, as nearly as practicable, ignoring fractions and rounding down to the nearest whole number of Subscription Shares and the remaining amount will be kept by the Company.

4,386,432,755 Subscription Shares to be issued and allotted by the Company upon the completion of the Subscription Agreements represents approximately 75.171% of the Company's existing issued share capital and approximately 42.913% of the Company's enlarged issued share capital after the Subscription.

Ranking of Subscription Shares

The Subscription Shares, when issued and fully paid, will rank pari passu among themselves and with Shares in issue at the time of issue and allotment of the Subscription Shares, with the right to receive all dividends and other distributions declared, made or paid on or after the date of allotment.

The Subscription Shares

The Subscription Shares will be issued under a special mandate to be considered by the Independent Shareholders at the Second EGM. Application has been made by the Company to the Listing Committee of the Hong Kong Stock Exchange for the grant of the listing of, and permission to deal in, the Subscription Shares.

Conditions of the Subscription Agreements

The completion of the Subscription Agreements is conditional upon, among other things:

(i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;

(ii) the Executive granting the Whitewash Waiver to TCL Industries and parties acting in concert with it under the Hong Kong Takeovers Code pursuant to the terms of the Subscription Agreements; and

(iii) the Independent Shareholders in an extraordinary general meeting to be held approving by way of poll the Subscription Agreements and the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Subscribers pursuant to the terms and conditions of the Subscription Agreements.

The above conditions cannot be waived by the parties to the Subscription Agreements and none of which has been fulfilled as of the date of this circular.

In the event that the conditions to the Subscription Agreements are not fulfilled by 3 September 2008 or such later date as may be agreed between the Company and the Subscribers, all rights, obligations and liabilities of the parties in respect of or under the Subscription Agreements shall cease and terminate, and no party shall have any claim of any nature whatsoever against the other parties under the Subscription Agreements (except in respect of any antecedent breach of any obligation under the Subscription Agreements).

The Company confirmed that there had not been any change in the terms and conditions of the Subscription Agreement as disclosed in the First Announcement and the First Circular, respectively.

REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

Reference is made to the Bonds Announcement of the Company dated 21 May 2007. Unless otherwise stated, terms used herein shall have the same meanings as defined in the Bonds Announcement.

The Bonds were issued by the Company on 12 July 2007. The principal terms and conditions of the Bonds were set out in the Bonds Announcement.

According to the Trust Deed, in the event that one of the Redemption Events occurs, (i) the Bondholders have the right to request the Company to redeem all or some of their Bonds at the Early Redemption Amount; and (ii) the Company shall issue a notice to inform all Bondholders, among other things, the occurrence of the relevant Redemption Event by not later than 14 days following the first day on which the Company becomes aware of the occurrence of the relevant Redemption Event.

On 25 March 2008, one of the Redemption Events occurred, namely, 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 of HK$0.65 per Share.

In compliance with the terms and conditions of the Trust Deed, the Company issued a notice on 8 April 2008 to inform all Bondholders of the occurrence of the abovementioned Redemption Event, and their rights to request the Company to redeem all or some of their Bonds at the Early Redemption Amount, as well as the procedures in relation thereto.

The Company has already received notices of request from all the Bondholders holding the principal amount of US$140 million (approximately HK$1,091,328,000) in relation to redemption of the Bonds by the Company at the Early Redemption Amount of an aggregate amount of approximately US$150.9 million (approximately HK$1,176,295,680).

According to the Trust Deed, the Company settled the payment of the above Early Redemption Amount in the amount of US$94.7 million (approximately HK$738,205,440) and US$56.2 million (approximately HK$438,090,240) on 6 June 2008 and 20 June 2008, respectively, out of the deposit in the amount of HK$1,206,269,010 paid by the Subscribers.

The Company had applied part of the deposit for the Subscription of approximately HK$1,192,000,000 to redeem the Bonds of the aggregate principal amount of US$140 million (approximately HK$1,091,328,000) in full at the Early Redemption Amount of an aggregate amount of approximately US$150.9 million (approximately HK$1,176,295,680).

The fair value gains on the Bonds were in the amount of approximately HK$241,417,000 and approximately HK$155,336,000 (unaudited) for the year ended 31 December 2007 and the three months ended 31 March 2008, respectively. After the redemption of the Bonds in full, the fair value gains arose for the year ended 31 December 2007 and the three months ended 31 March 2008, respectively, will be adjusted and it is expected that the Company will incur a one-off loss in the amount of approximately HK$401,334,000, as a result of the redemption of Bonds in full in June 2008.

The Directors consider that the terms of the Subscription Agreements are fair and reasonable and the Subscription is in the interest of the Company and the Shareholders as a whole as full redemption of the Bonds will (i) terminate the financial covenants under the Bonds; (ii) lower its financial costs and liabilities as well as gearing ratio; and (iii) eliminate the impact of fair value adjustments of the Bonds on the financial results of the Group, and thereby, facilitates its future financing exercises and the conduct of the Group's business.

HONG KONG LISTING RULES IMPLICATIONS

TCL Industries is the controlling Shareholder of the Company and is therefore a connected person of the Company. Each of Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu is an executive Director of the Company and is therefore a connected person of the Company. The Subscription constitutes a connected transaction for the Company under the Hong Kong Listing Rules and is subject to, among other things, approval of the Independent Shareholders by way of poll at the Second EGM. Each of TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan, Ms. Lu and their respective associates and parties acting in concert with any one of them and those Shareholders who are involved in, or interested in the Subscription and the Whitewash Waiver shall abstain from voting in respect of the Subscription.

As of the date of this circular, TCL Industries and parties acting in concert with it controlled or were entitled to exercise over the voting rights in 2,416,848,512 Shares representing approximately 41.418% of the issued share capital of the Company.

Save as disclosed above, to the best of the Director's knowledge, information and belief having made all reasonable enquiry, the Subscribers (save as TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu) and, in the case of body corporate, their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

APPLICATION FOR THE WHITEWASH WAIVER

Assuming no further Shares will be issued by the Company prior to the completion of the Subscription, upon completion of the Subscription Agreements, the interests held by TCL Industries and parties acting in concert with it will increase from 41.418% to 66.558% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, representing an increase in their shareholdings in the Company by more than 2%.

TCL industries and parties acting in concert with it will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the completion of the Subscription.

TCL Industries has applied to the Executive for a whitewash waiver pursuant to Note 1 on Dispensation from Rule 26 of the Hong Kong Takeovers Code and the Executive has granted the whitewash waiver (the "**First Whitewash Waiver**") subject to the following conditions:

(1) the issue of the new securities being approved by a vote of independent shareholders at a general meeting of the Company, to be taken on a poll; and

(2) unless the Executive gives prior consent, no acquisition or disposal of voting rights being made by TCL industries and its concert parties between the announcement of the proposed issue of new securities and the completion of the issue.

In view of the adjournment of the First EGM and the convening of the Second EGM, TCL Industries has reapplied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Hong Kong Takeovers Code. The Whitewash Waiver shall be subject to the approval by the Independent Shareholders at the Second EGM on a vote taken by way of a poll whereby each of TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan, Ms. Lu and their respective associates and parties acting in concert with it and those Shareholders who are involved in, or interested in the Subscriptions and the Whitewash Waiver will abstain from voting in respect of the Whitewash Waiver.

If the Whitewash Waiver is granted, TCL Industries will not be required to make a mandatory general offer to the Shareholders under Rule 26 of the Hong Kong Takeovers Code as a result of the allotment and issue of the Subscription Shares. Furthermore, as TCL Industries and its concert parties will hold more than 50% of the voting rights of the Company upon completion of the Subscription, they may increase their holding without incurring any further obligation to make a general offer under Rule 26 of the Hong Kong Takeovers Code.

Save as (i) the share repurchases conducted by the Company as disclosed in the share buyback reports of the Company dated 14 December 2007, 17 December 2007, 18 December 2007, 19 December 2007, 20 December 2007, 16 January 2008, 30 January 2008 and 18 March 2008, respectively; and (ii) the purchases of 500,000 Shares each by Mr. Leong on 22 January 2008 and 30 January 2008, respectively, there are no dealings in the securities of the Company by the Subscribers and their respective concert parties during the six months prior to the date of the First Announcement and including the date of the First Announcement. The share repurchases by the Company and the purchases of Shares by Mr. Leong mentioned above may constitute disqualifying transactions under the Hong Kong Takeovers Code. An application has been made to the Executive for a ruling that these dealings will not constitute disqualifying transactions for the purpose of the Whitewash Waiver and the Executive has confirmed that the share repurchases by the Company and the purchases of Shares by Mr. Leong mentioned above will not constitute disqualifying transactions for the purpose of the Whitewash Waiver due to the fact that such dealings took place prior to any negotiations, discussions or the reaching of understandings or agreements with the Directors (which includes informal discussions) in relation to the proposed issue of new Shares under the Subscription.

Except as disclosed in the section headed "Effects on Shareholding" below, the Subscribers and their respective concert parties do not hold any other securities, or derivatives in respect of the securities in the Company.

EFFECTS ON SHAREHOLDING

The effects of the Subscription on the shareholding of the Company upon completion of the Subscription Agreements are shown as follows:

	Shareholding as of the date of this circular		Shareholding upon completion of the Subscription Agreements	
	Number of Shares	*Percentage (%)*	*Number of Shares*	*Percentage (%)*
TCL Industries	2,304,181,933	39.487%	5,563,992,842	54.433%
Creative Honor Overseas Limited	–	–	290,909,090	2.846%
Advance Data Service Limited	–	–	141,730,909	1.387%
Top Scale Company Limited	–	–	131,566,545	1.287%
Info Express Service Limited	–	–	28,346,181	0.277%
Mr. Chen Hong	–	–	141,730,909	1.387%
Mr. Li *(Note 1)*	111,666,579	1.914%	184,393,851	1.804%
Mr. Leong	1,000,000	0.017%	8,272,727	0.081%
Mr. Yuan *(Note 2)*	–	–	3,636,363	0.036%
Ms. Lu *(Note 3)*	–	–	1,090,909	0.011%
Mr. Bo Lianming	–	–	5,178,072	0.051%
Mr. Zhao Zhongyao	–	–	8,174,363	0.080%
Ms. Liao Shaoyao	–	–	158,296,472	1.549%
Mr. Wang Hui	–	–	16,293,563	0.159%
Mr. Song Yu	–	–	65,341,381	0.639%
Mr. Chan King Yin Colin	–	–	1,163,636	0.011%
Ms. Huang Kaili	–	–	26,924,109	0.263%
Ms. Shao Wei	–	–	26,239,345	0.257%
Subtotal (for TCL Industries and its concert parties) *(Note 4)*:	2,416,848,512	41.418%	6,803,281,267	66.558%
Mr. Wang Kangping *(Note 5)*	150,000	0.003%	150,000	0.001%
Public Shareholders	3,418,243,078	58.579%	3,418,243,078	33.441%
Total:	5,835,241,590	100.000%	10,221,674,345	100.000%

Notes:

(1) As of the Latest Practicable Date, in addition to the 111,666,579 Shares, Mr. Li also holds outstanding share options under the employee share option scheme(s) of the Company with the rights to subscribe for 23,990,028 Shares at the prices of (i) HK$1.167 (in respect of 6,000,000 outstanding share options); and (ii) HK$0.630 (in respect of 17,990,028 outstanding share options). Mr. Li is a director of TCL Industries.

(2) As of the Latest Practicable Date, Mr. Yuan holds outstanding share options under the employee share option scheme(s) of the Company with the rights to subscribe for 2,216,033 Shares at the prices of (i) HK$1.167 (in respect of 396,000 outstanding share options); and (ii) HK$0.630 (in respect of 1,820,033 outstanding share options). Mr. Yuan is a director of TCL Industries.

(3) As of the Latest Practicable Date, Ms. Lu holds outstanding share options under the employee share option scheme(s) of the Company with the rights to subscribe for 4,300,033 Shares at the prices of (i) HK$1.167 (in respect of 3,000,000 outstanding share options); and (ii) HK$0.630 (in respect of 1,300,033 outstanding share options). Ms. Lu is a director of TCL Industries.

(4) Each of the Subscribers (except TCL Industries), namely, Creative Honor Overseas Limited, Advanced Data Service Limited, Top Scale Company Limited, Info Express Service Limited, Mr. Chen Hong, Mr. Li, Mr. Leong, Mr. Yuan, Ms. Lu, Mr. Bo Lianming, Mr. Zhao Zhongyao, Ms. Liao Shaoyao, Mr. Wang Hui, Mr. Song Yu, Mr. Chan King Yin Colin, Ms. Huang Kaili and Ms. Shao Wei, is regarded as a party acting in concert with TCL Industries.

(5) As of the Latest Practicable Date, in addition to the 150,000 Shares, Mr. Wang Kangping, an executive Director of the Company, also holds outstanding share options under the employee share option scheme(s) of the Company with the rights to subscribe for 1,680,000 Shares at the prices of HK$1.167.

(6) Save as disclosed in the table above, as of the Latest Practicable Date, none of TCL Industries, the directors of TCL Industries nor the parties acting in concert with TCL Industries has any shareholding interest in the Company.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as the rights issue disclosed in the announcement of the Company dated 15 May 2007 and the issue of the Bonds disclosed in the Bonds Announcement dated 21 May 2007, the Company has not conducted any fund raising activities in the past twelve months before the date of the First Announcement.

INFORMATION ON THE PARTIES

The Group

The Group is principally engaged in the manufacture and sale of wide range of electronic consumer products including television set and audio-visual products. The Group also has factories in various places in the world including in PRC and Mexico. For more information on the Group, please visit its official website at www.tclhk.com (the information that appears in this website does not form part of this circular).

TCL Industries

TCL Industries is the controlling shareholder of the Company and holds approximately 39.487% of the issued share capital of the Company as of the date of this circular. TCL Industries is beneficially wholly-owned by TCL Corporation and an investment holding company without other business activities. The board of directors of TCL Industries comprises of Mr. Li, Mr. Yuan, Ms. Lu, Mr. Zheng Chuanlie and Mr. Jacky Zhou.

TCL industries (i) intends to maintain the existing businesses of the Group upon completion of the Subscription; (ii) has no intention to introduce any major change to the existing business operation, including the redeployment of any material fixed assets of the Group, as a result of the completion of the Subscription; (iii) has no intention to introduce any major change to the management structure of the Group or discontinue the employment of any employee of the Group as a result of the completion of the Subscription; and (iv) has no intention to transfer, charge or pledge any of the Subscription Shares to any other person.

INFORMATION DISCLOSED ON THE FIRST CIRCULAR

Unless otherwise stated in this circular, the Directors confirm that there is no material change in information as set out in the First Circular, including but not limited to, among other matters, (i) material contract; (ii) shareholdings and dealing; (iii) directors' emoluments; (iv) special arrangements; (v) ultimate owner of securities acquired under the Whitewash Waiver; (vi) arrangements in relation to dealings; and (vii) changes to directors' service contracts.

SECOND EGM

The Second EGM will be held at Salon I & II, Mezzanine Level, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 5:00 p.m. on Friday, 15 August 2008 to consider and, if thought fit, approve the Subscription and the Whitewash Waiver. Notice of Second EGM is set out on pages 142 to 143 of this circular and the form of proxy for use at the Second EGM is enclosed in this circular. Whether or not you intend to attend the Second EGM in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the Second EGM or any adjournment thereof.

Completion of the form of proxy will not preclude you from attending and voting at the Second EGM or any adjourned meeting thereof should you so wish.

RECOMMENDATION OF THE BOARD

The Board considers that the Subscription and the Whitewash Wavier are in the interests of the Company and the Independent Shareholders as a whole and the Directors consider that the terms of the Subscription Agreements are fair and reasonable so far as the Independent Shareholders are concerned and on normal commercial terms. Accordingly, the Directors (excluding the independent non-executive Directors) recommend you to vote in favour of the resolution to be proposed at the Second EGM.

RECOMMENDATION OF THE INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser advised that the First Letter of Advice is prepared on the basis of two scenarios including (i) only the Subscription is completed; and (ii) both the Subscription and the Assignment of Loan are completed.

On the above premises, the Independent Financial Adviser has confirmed that:

(i) its analysis as contained in the First Letter of Advice in respect of the Subscription and the Whitewash Waiver in respect of the Subscription is not affected;

(ii) its recommendation to the Independent Board Committee and the Independent Shareholders remains unchanged and it maintains its view that the Subscription is entered into in the Group's ordinary and usual course of business and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned; and

(iii) it considers that the entering into of the Subscription Agreements and the grant of the Whitewash Waiver in respect of the Subscription are in the interests of the Company and its Shareholders as a whole.

The Independent Financial Adviser therefore advises the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Second EGM to approve the Subscription Agreements and the Subscription as well as the Whitewash Waiver in respect of the Subscription.

A letter issued by the Independent Financial Adviser with the full text of the First Letter of Advice reproduced thereunder, is set out in the section headed "Letter from the Independent Financial Adviser" on pages 18 to 40 of this circular.

RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders on the Subscription and the Whitewash Waiver and the Independent Board Committee has approved the appointment of Somerley Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Subscription and the Whitewash Waiver in accordance with the Hong Kong Listing Rules and Hong Kong Takeovers Code.

Having considered (i) the terms of the Subscription Agreements and the Whitewash Waiver; (ii) the advice of the Independent Financial Adviser as set out under the First Letter of Advice; (iii) the confirmation as set out under the section headed "Recommendation of the Independent Financial Adviser" above; (iv) the letter issued by the Independent Financial Adviser as set out under the section headed "Letter from the Independent Financial Adviser" on pages 18 to 40 in this circular, the Independent Board Committee has confirmed that its opinion to the Independent Shareholders remains unchanged, namely, the terms of the Subscription and the related Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Shareholders and the Company as a whole.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the Second EGM to approve the Subscription and the Whitewash Waiver.

A letter from the Independent Board Committee is set out in the section headed "Letter from the Independent Board Committee" on page 17 of this circular.

GENERAL INFORMATION

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.

Your attention is drawn to the letter from the Independent Board Committee set out on page 17 of this circular and the letter issued by the Independent Financial Adviser on pages 18 to 40 of this circular.

The Board strongly advises the Independent Shareholders to read each of these letters before reaching a decision in respect of the resolution to be proposed at the Second EGM.

By order of the Board
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
Li Dongsheng
Chairman

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

（TCL多媒體科技控股有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

31 July 2008

To the Independent Shareholders

Dear Sir or Madam,

SUBSCRIPTION FOR NEW SHARES – CONNECTED TRANSACTION AND WHITEWASH WAIVER APPLICATION

We refer to the circular of the Company dated 31 July 2008 (the "Circular") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered (i) the terms of the Subscription Agreements and the Whitewash Waiver; (ii) the advice of the Independent Financial Adviser in relation thereto as set out in the section headed "Letter from the Independent Financial Adviser" on pages 18 to 38 of the circular of the Company dated 27 June 2008; (iii) the confirmation as set out under the section headed "Recommendation of the Independent Financial Adviser" in the letter from the Board contained in the Circular; and (iv) the letter issued by the Independent Financial Adviser as set out under the section headed "Letter from the Independent Financial Adviser" on pages 18 to 40 of the Circular, we are of the opinion that the terms of the Subscription and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Shareholders and the Company as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the Second EGM to approve the Subscription and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Albert Thomas da Rosa, Junior	**Tang Guliang**
Robert Maarten Westerhof	**Wu Shihong**

The following is the full text of a letter from Somerley Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver for the purpose of incorporation into this circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

31 July 2008

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

SUBSCRIPTION FOR NEW SHARES – CONNECTED TRANSACTION AND WHITEWASH WAIVER APPLICATION

We refer to our letter of advice dated 27 June 2008 to the Independent Board Committee and the Independent Shareholders in connection with the Subscription, Assignment of Loan and the whitewash waiver in relation thereto as contained in the circular to the Shareholders dated 27 June 2008. At the extraordinary general meeting of the Company held on 15 July 2008, the Assignment Agreement and the Assignment of Loan were not approved by the independent shareholders of the Company. The Company therefore proposes to convene another extraordinary general meeting, to be held on Friday, 15 August 2008, to consider only the Subscription and the Whitewash Waiver in respect of the Subscription whereby TCL Industries will not be required to make a mandatory general offer to all the issued Shares not owned or agreed to be acquired by it and its concert parties upon completion of the Subscription. Details of the revised proposal are contained in the circular to the Shareholders dated 31 July 2008 (the "Second Circular"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Second Circular.

Our First Letter of Advice is prepared on the basis of two scenarios including (i) only the Subscription is completed; and (ii) both the Subscription and the Assignment of Loan are completed. We would like to confirm that our analysis as contained in the First Letter of Advice in respect of the Subscription and the Whitewash Waiver in respect of the Subscription is not affected. The full text of the First Letter of Advice is reproduced on pages 20 to 40 of the Second Circular. We also confirm hereby that our recommendation to the Independent Board Committee and the Independent Shareholders remains unchanged and we maintain our view that the Subscription is entered into in the Group's ordinary and usual course of business and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Subscription Agreements and the grant of the Whitewash Waiver in respect of the Subscription are in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the Second EGM to approve the Subscription Agreements and the Subscription as well as the Whitewash Waiver in respect of the Subscription.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director

The full text of a letter of advice from Somerley Limited dated 27 June 2008 to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, the Assignment of Loan and the whitewash waiver in relation thereto is reproduced below.

"

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

27 June 2008

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

SUBSCRIPTION FOR NEW SHARES – CONNECTED TRANSACTION
ASSIGNMENT OF LOAN – CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION
WHITEWASH WAIVER APPLICATION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the Subscription Agreements dated 30 May 2008 entered into between the Company and the Subscribers, pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue the Subscription Shares at the Subscription Price for an aggregate amount of HK$1,206,269,010. The Subscribers include TCL Industries (the controlling Shareholder of the Company), four executive directors of the Company namely Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu and certain parties who are independent from the Company's connected persons or any of their respective associates; and (ii) the Assignment Agreement with TCL Industries, pursuant to which TCL Industries conditionally agreed to assign the Loan to the Company and the Company conditionally agreed to issue the Consideration Shares at the Subscription Price for an aggregate amount of HK$117,524,522.3, being the amount of the Loan. Details of the Subscription Agreements and the Assignment Agreement are contained in the circular to the Shareholders dated 27 June 2008 (the "Circular"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

TCL Industries is the controlling shareholder of the Company. Each of Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu is an executive director of the Company. Accordingly, the Subscription Agreements entered into between the Company and the above parties constitute connected transactions of the Company and the Assignment of Loan constitutes a connected and discloseable transaction of the Company under the Hong Kong Listing Rules.

Assuming no further Shares will be issued by the Company prior to the completion of the Subscription, the interests held by TCL Industries and parties acting in concert with it will, upon completion of the Subscription Agreements, increase from 41.418% to 66.558% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares. In the event that the Assignment of Loan is completed together with the Subscription Agreements, the aggregate interest held by TCL Industries and its concert parties will further increase to 67.900% of the Company's issued share capital as enlarged by the issue of the Subscription Shares and Consideration Shares. TCL Industries and parties acting in concert with it will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the completion of the Assignment of Loan and/or the Subscription. TCL Industries has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensation from Rule 26 of the Hong Kong Takeovers Code.

The Subscription, the Assignment of Loan and the Whitewash Waiver are all subject to the approval of the Independent Shareholders by way of poll at the EGM at which Shareholders who are involved or interested in the Subscription, the Assignment of Loan and the Whitewash Waiver, including TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan, Ms. Lu and their respective associates and concert parties, will abstain from voting in respect of the Subscription, the Assignment of Loan and the Whitewash Waiver.

The Independent Board Committee comprising all the non-executive Directors namely Mr. Albert Thomas da Rosa, Junior, Mr. Tang Guliang, Mr. Robert Maarten Westerhof and Ms. Wu Shihong has been formed to advise the Independent Shareholders in respect of the Subscription, the Assignment of Loan and the Whitewash Waiver. Mr. da Rosa is a partner of a law firm which provides legal and secretarial services to the Company. Mr. da Rosa and his law firm have not provided legal services to the Company as regards the Subscription, the Assignment of Loan and the Whitewash Waiver and therefore, Mr. da Rosa is considered eligible to serve as a member of the Independent Board Committee. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription, the Assignment of Loan and the Whitewash Waiver.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. However, we have not conducted any independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Subscription, the Assignment of Loan and the Whitewash Waiver are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Principal terms of the Subscription and the Assignment of Loan

(i) The Subscription Agreements

On 30 May 2008, the Company entered into the Subscription Agreements with a total of 18 Subscribers, pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue the Subscription Shares at the Subscription Price for an aggregate amount of HK$1,206,269,010. Subscribers include TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu, all of whom are connected persons of the Company, and 13 third parties who are not connected persons of the Company. All the Subscribers are classified as parties acting in concert with TCL Industries. Identities of individual Subscribers are contained in the "Letter from the Board" in this Circular.

Except for the subscription amount, all of the Subscription Agreements contain the same terms and conditions summarised as follows:

Subscription Price

The Subscription Price is set at a 15% discount to the average closing price per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for 10 trading days immediately after the date of the announcement as regards the Subscription, the Assignment of Loan and the Whitewash Waiver, subject to a price range of HK$0.315 and HK$0.250. On this basis, the Subscription Price has been fixed at HK$0.275 which is equivalent to 85% of the average closing price per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange from 10 June 2008 up to and including 23 June 2008.

As at the Latest Practicable Date, the full amount of the Subscription monies totaling approximately HK$1,206 million has been paid by the Subscribers as deposits for the Subscription (the "Deposit(s)"). The Deposits shall be fully refunded to the Subscribers if the Subscription Agreements do not become unconditional by 3 September 2008 (or such later date as may be agreed between the Company and the Subscribers) (the "Long Stop Date"). The Deposits are interest bearing, from the date of receipt by the Group to the completion of the Subscription, or up to the Long Stop Date if the Subscription does not become unconditional, at an annual interest rate of 10%.

The Company has applied HK$1,192 million of the Deposits to satisfy the early redemption amount of the 4.5% secured convertible bonds in aggregate principal amount of US$140 million issued by the Company in 2007 (the "Bonds"). The events triggering the early redemption of the Bonds are discussed in the paragraph below headed "Reasons and benefits arising from the Subscription and the Assignment of Loan".

Number of Subscription Shares

Pursuant to the Subscription Agreements, the number of Subscription Shares is arrived at by dividing the Deposit paid by each Subscriber by the Subscription Price, and rounded down to the nearest whole number. On this basis, a total of 4,386,432,755 Subscription Shares will be issued and allotted by the Company. The above Shares represent approximately 75.2% of the Company's existing issued share capital, approximately 42.9% of the Company's issued share capital as enlarged by the Subscription, and approximately 41.2% of the Company's issued share capital as enlarged by the issue of new Shares pursuant to both the Subscription Agreement and the Assignment Agreement.

Conditions of the Subscription Agreements

Completion of the Subscription Agreements is conditional upon, among other things:

(i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares;

(ii) the Executive granting the Whitewash Waiver to TCL Industries and parties acting in concert with it under the Hong Kong Takeovers Code pursuant to the terms of the Subscription Agreements; and

(iii) the Independent Shareholders passing resolutions by way of poll approving the Subscription Agreements, the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Subscribers pursuant to the terms and conditions of the Subscription Agreements.

(ii) The Assignment Agreement

The Company has also on 30 May 2008 entered into the Assignment Agreement with TCL Industries, pursuant to which TCL Industries conditionally agreed to assign the Loan to the Company and the Company conditionally agreed to issue the Consideration Shares at the Subscription Price for an aggregate amount of HK$117,524,522.3, being the amount of the Loan. The Loan was advanced by TCL Industries or its associates to TCL Holdings and TCL International, being wholly-owned subsidiaries of the Company, without fixed term of repayment. Of the Loan, an amount of HK$24,920,900 is interest bearing, with interest payable at the rate of 0.257% per month.

Subscription Price

The pricing formula for the issue of Shares under the Assignment Agreement is the same as that used for the Subscription. Therefore, unit price for the Shares to be issued under the Assignment Agreement is also fixed at HK$0.275.

Number of Consideration Shares

The number of Consideration Shares to be issued under the Assignment Agreement is calculated on the same basis as for the Subscription. Based on a unit Subscription Price of HK$0.275, 427,361,899 Consideration Shares will be issued and allotted by the Company. The above Shares represent approximately 7.3% of the Company's existing issued share capital and approximately 4.0% of the Company's issued share capital as enlarged by the Subscription and the Assignment of Loan.

Conditions of the Assignment Agreement

Completion of the Assignment Agreement is conditional upon, among other things:

(i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares;

(ii) the Executive granting the Whitewash Waiver to TCL Industries and parties acting in concert with it under the Hong Kong Takeovers Code pursuant to the terms of the Subscription Agreements and the Assignment Agreement;

(iii) the Independent Shareholders passing resolutions by way of poll approving the Assignment Agreement, the Whitewash Waiver and the issue and allotment of the Consideration Shares to TCL Industries pursuant to the terms and conditions of the Assignment Agreement; and

(iv) the Subscription becoming unconditional.

Independent Shareholders should note that completion of the Assignment Agreement is subject to the Subscription becoming unconditional but not vice versa. Therefore, the possible scenarios are either only the Subscription is completed, or both the Subscription Agreements and the Assignment Agreement are completed.

2. Reasons for and benefits arising from the Subscription and the Assignment of Loan

(i) the Subscription

In May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London ("Deutsche Bank") whereby the Company agreed to issue and Deutsche Bank agreed to subscribe or procure subscribers for the Bonds with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,091 million). The Bonds were duly issued in July 2007 pursuant to the Purchase Agreement. They carried a coupon rate of 4.5% and were convertible into Shares at HK$0.65 per Share. According to the Purchase Agreement, the Bonds would be redeemed by the Company at the principal amount, together with a 37.5% premium (the "Redemption Premium") thereon, on the maturity date, i.e. 12 July 2012, if the Bonds are not early redeemed by the holders of the Bond (the "Bondholders").

One of the principal terms of the Bonds was that the Bondholders had the right to require the Company to redeem all or some of their Bonds at the early redemption amount in the event that the closing price of the Shares 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. On 25 March 2008, the above-mentioned event occurred. In compliance with the terms of the Bonds, the Company has on 8 April 2008 issued a notice to inform all Bondholders of their rights to request the Company to redeem all or some of their Bonds at the early redemption amount.

Up to 8 June 2008, the Company had received notices from all the Bondholders requesting the Company to redeem the Bonds at the early redemption amount totaling approximately US$150.9 million (approximately HK$1,176.3 million). The above early redemption amount included a sum which was equivalent to the Bondholders' time-apportioned entitlement to the Redemption Premium. The Company has on 6 June 2008 and 20 June 2008 settled the payment of the above early redemption amount in the amount of US$94.7 million (approximately HK$738.2 million) and US$56.2 million (approximately HK$438.1 million) respectively. As above-mentioned, payment of the early redemption amount was financed by the Deposits paid by the Subscribers pursuant to the Subscription Agreements.

The entering into of the Subscription Agreements enabled the Group to have access to the Deposits to meet the early redemption amount of the Bonds. Redemption of the Bonds enables the Group to terminate the financial covenants under the Bonds. It is expected that this will facilitate the Group's future financing exercises.

(ii) the Assignment of Loan

The Group recorded net losses in the three financial years ended 31 December 2007 and has been relying on the financial support from TCL Industries and its holding company, TCL Corporation, to fund its operations. The interest accrued and payable on the Loan was approximately HK$1,183,070 for the year ended 31 December 2006 and approximately HK$1,082,169 for the year ended 31 December 2007. The Assignment of Loan would enable the Group to eliminate almost the entire outstanding loan balance due to TCL Industries and strengthen the financial position of the Group, in particular its equity base. The Assignment of Loan also eliminates the interest expense incurred in relation to the Loan from the Group's perspective.

3. Information on the Group

(i) Business of the Group

The Group is principally engaged in the manufacture and distribution of television and home networking products, and television is the core product of the Group. The Group is a major player in the PRC television market. Besides PRC, the Group also operates in Europe, North America and other emerging markets. Up to 2003, revenue generated from the PRC operation accounted for at least 80% of the Group's total revenue. In 2004, the Group took steps to expand to Europe and North America through the establishment of a joint venture, namely TTE Corporation, with Thomson S.A. TTE Corporation became a wholly owned subsidiary of the Group in 2005. The Group faced fierce market competition in Europe and North America and, despite a satisfactory contribution from the PRC operation, it recorded net losses for the three financial years ended 31 December 2007.

Television sets manufactured by the Group are now sold in the PRC, Europe, North America and other countries under three key brands – "TCL", "THOMSON" and "RCA". The Group is also engaged in the business of original equipment manufacturing ("OEM") of television and home networking products, which are sold under the respective brand names of the customers of the Group. Currently, the Group is one of the world's largest television manufacturing companies, with a full line of television products including CRT and flat panel LCD products. One of the competitive advantages of the Group lies in its global and efficient manufacturing platform. Its television manufacturing plants are located in PRC, Poland, Mexico, Thailand and Vietnam. The Group also has its own research and development centers.

The Directors expect that the demand for LCD television will continue to grow in the Group's major markets. As a result, the Group is expanding its LCD production capacity to meet the expected increase in sales volume of LCD television sets. After the restructuring of the Group's European business operations and the implementation of a new business model in 2007, where sales and marketing efforts are streamlined to focus on larger orders to reduce selling and distribution costs, it is expected that the European segment would contribute better results in the coming years.

The Group took a bold step in setting up TTE Corporation in 2004 to expand in Europe and North America, one of the first such steps by a PRC Group attracting considerable press comments at the time. However, as noted above, the weak performance of TTE Corporation led to losses for the last three financial years. This in turn, in our opinion, has been mainly responsible for the weak share price performance which eventually triggered the early redemption of the Bonds and the requirement for replacement funding.

(ii) Financial information of the Group

Income statements

The following table summarises the consolidated financial information of the Group, prepared in accordance with Hong Kong Financial Reporting Standards, for the two financial years ended 31 December 2007, and for the 3 months ended 31 March 2008:

	Three months ended 31 March		Year ended 31 December	
	2008	**2007**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
CONTINUING OPERATIONS				
Turnover	5,500,346	5,019,026	21,294,104	29,186,823
Cost of sales	(4,484,895)	(4,103,705)	(17,727,588)	(24,690,655)
Gross profit	1,015,451	915,321	3,566,516	4,496,168
Other revenue and gains	50,113	32,584	229,333	170,405
Selling and distribution costs	(744,140)	(683,459)	(2,857,109)	(4,338,220)
Administrative expenses	(172,656)	(218,605)	(889,789)	(1,135,545)
Research and development costs	(51,512)	(15,209)	(139,046)	(383,567)
Other operating expenses	(213)	(23,471)	(98,728)	(245,928)
	97,043	7,161	(188,823)	(1,436,687)
Costs in connection with the restructuring and winding-down of the European operation, net (#)	–	–	17,974	(694,868)
Finance costs *(note 1)*	(67,107)	(43,256)	(269,613)	(245,622)
Share of profits and losses of:				
Jointly-controlled entities	(5,530)	(1,368)	(3,925)	3,589
Associates	82	131	1,707	(70)
	24,488	(37,332)	(442,680)	(2,373,658)

	Three months ended 31 March		Year ended 31 December	
	2008	**2007**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Fair value gain on the derivative component of the Bonds (#)	155,336	–	241,417	–
Fair value loss of financial assets at fair value through profit or loss (#)	–	–	–	(37,653)
Profit/(loss) before tax	179,824	(37,332)	(201,263)	(2,411,311)
Tax	(9,567)	(28,694)	(51,916)	(96,523)
Profit/(loss) for the period/year from continuing operations	170,257	(66,026)	(253,179)	(2,507,834)
DISCONTINUED OPERATION				
Profit for the period/year from a discontinued operation (#)	–	–	–	7,362
Profit/(loss) for the period/year	170,257	(66,026)	(253,179)	(2,500,472)
Gross profit margin	18.5%	18.2%	16.7%	15.4%
Net profit margin	3.1%	N/A	N/A	N/A
Profit/(loss) for the period/year adjusted for non-recurring items (marked as #) *(note 2)*	14,921	(66,026)	(512,570)	(1,775,313)
Net profit margin adjusted for non-recurring items (marked as #) *(note 2)*	0.0%	N/A	N/A	N/A

Note:

(1) Includes interest expenses for the Bonds, which amounted to approximately HK$68 million and approximately HK$39 million for the year ended 31 December 2007 and for the period ended 31 March 2008 respectively. The Bonds have a coupon rate of 4.5% but were charged at an effective interest rate of approximately 31% for the entire term of the Bonds.

(2) The adjusted profit/(loss) for the period/year has not taken into account any potential tax effects.

Turnover by region

	Three months ended 31 March		Year ended 31 December	
	2008	**2007**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Mainland China	2,912,126	2,898,729	10,401,959	10,656,523
Europe	375,433	54,870	875,145	3,879,008
North America	967,749	702,448	3,645,785	6,553,278
Others	1,245,038	1,362,979	6,371,215	8,098,014
Total	5,500,346	5,019,026	21,294,104	29,186,823

Like many television manufacturers, the Group's operating environment was challenging as major global markets continued their transition from CRT to LCD and plasma televisions and from analog to digital technology. The Group's turnover decreased from HK$29,187 million for the year ended 31 December 2006 to HK$21,294 million for the year ended 31 December 2007, which principally resulted from the scale-down and realignment of certain loss-making operations in Europe and North America. The combined turnover contribution from Europe and North America decreased from HK$10,432 million in 2006 to HK$4,521 million in 2007. According to the management of the Group, the Group's operations in the PRC also face strong competition in the first tier cities, which principally comes from imported brands. However, the Group manages to achieve satisfactory results in the second tier cities.

Due to the above-mentioned scale-down and realignment of certain loss-making operations in Europe and North America, gross profit percentage of the Group increased from 15.4% in 2006 to 16.7% in 2007.

Net loss of the Group for the year ended 31 December 2006 and 2007 was HK$2,500 million and HK$253 million respectively. Such improvement was primarily due to (i) the decrease in selling and distribution costs from HK$4,338 million to HK$2,857 million, which principally resulted from the decrease in sales and the successful adoption of a streamlined sales and marketing function for its European operation, which aims to focus on a few major customers and thereby reduce overhead costs; (ii) non-recurring net costs recognized in connection with the restructuring and winding-down of the European business in 2006 which amounted to HK$695 million; and (iii) fair value gain on the derivative component of the Bonds in 2007 in the sum of HK$241 million. The change in fair value on the derivative component of the Bonds is mainly dependent on the price movement of the Shares, volatility of the Shares and any change in the conversion price of the Bonds. With effect from 16 August 2007, the conversion price of the Bonds of HK$0.40 per Share was adjusted to HK$0.65 per Share in accordance with the terms and conditions of the Bonds, resulting in a fair value gain on change in value of the derivative component of the Bonds in 2007. Excluding the restructuring costs and fair value gain on the Bonds which are non-recurring in nature, the adjusted net losses decreased significantly from HK$1,775 million in 2006 to HK$513 million in 2007.

For the three months ended 31 March 2008, gross profit improved slightly from 18.2% to 18.5% from the same period in 2007. Profit before tax for the period was HK$180 million, compared to a loss of HK$37 million in the corresponding period last year. The most material item that contributed to the net profit for the three months ended 31 March 2008 was the fair value gain on the derivative component of the Bonds, which amounted to HK$155 million and arose mainly as a result of the decrease in prices of the Shares during the three months ended 31 March 2008. For the three months ended 31 March 2008, turnover increased to HK$5,500 million from HK$5,019 million for the same period in 2007, and gross profit increased from HK$915 million to HK$1,015 million. The total television sets sold decreased from 4.1 million sets to 3.5 million sets whereas sales of LCD televisions increased from 185,000 sets to 542,000 sets. Despite the decrease in the total number of television sets sold in the three months ended 31 March 2008, the Group was able to maintain its gross profit margin as compared to the same period in 2007.

Cash flow statements

	Year ended 31 December	
	2007	**2006**
	HK$'000	*HK$'000*
	(audited)	(audited)
Net cash (outflow)/inflow from operating activities	(893,837)	925,982
Net cash inflow from investing activities	21,321	332,310
Net cash inflow/(outflow) from financing activities	60,457	(1,190,013)
Net (decrease)/increase in cash and cash equivalents	(812,059)	68,279

The significant deterioration of net cash (outflow)/inflow from operating activities was mainly due to the slower turnover of inventories and receivables recorded in 2007.

The decrease in net cash inflow from investing activities in 2007 mainly resulted from the net outflow of cash and bank balances after de-consolidation of certain subsidiaries in 2007 following the restructuring of the Group's European business.

The improvement of cash inflow/(outflow) from financing activities was mainly due to proceeds from a rights issue amounting to HK$781 million in 2007.

Assets and liabilities

	31 March 2008 HK$'000 (unaudited)	31 December 2007 HK$'000 (audited)	31 December 2006 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	1,679,992	1,667,073	1,993,791
Other non-current assets	624,391	638,970	746,349
	2,304,383	2,306,043	2,740,140
Current assets			
Inventories	3,265,453	3,229,362	3,206,919
Trade and bills receivables	2,762,580	3,347,595	3,595,130
Other current assets	880,773	801,532	960,182
Cash and bank balances	817,599	1,095,341	1,894,633
	7,726,405	8,473,830	9,656,864
Current liabilities			
Trade and bills payables	3,834,254	4,409,737	4,642,315
Tax payable	114,197	95,963	111,124
Other payables *(notes 1 and 3)*	1,379,323	1,483,901	2,099,535
Provisions	341,657	349,914	805,328
Interest-bearing borrowings	723,870	913,525	2,660,582
Due to TCL Corporation *(notes 2 and 3)*	224,997	220,359	347,999
	6,618,298	7,473,399	10,666,883
Net current assets/(liabilities)	1,108,107	1,000,431	(1,010,019)
Non-current liabilities			
Interest-bearing borrowings	133,676	131,041	–
Liability component of the Bonds *(note 4)*	532,237	506,698	–
Derivative component of the Bonds *(note 4)*	218,374	374,514	–
Other non-current liabilities	30,787	30,647	40,079
	915,074	1,042,900	40,079
Net assets	2,497,416	2,263,574	1,690,042

Note:

(1) Included an amount due to TCL Industries of approximately HK$48 million.

(2) Included a loan due to TCL Corporation in the sum of approximately HK$79 million, the remaining balance principally arose from business activities conducted with the Group.

(3) Pursuant to the Assignment Agreement, approximately HK$79 million of the amount due to TCL Corporation would be assigned to its wholly owned subsidiary namely TCL Industries, and capitalized together with an amount due to TCL Industries of approximately HK$39 million, which was included as other payables as at 31 March 2008.

(4) On issuance of the Bonds, the derivative component of the Bond was carried at its fair value, which is determined using the applicable option pricing model. The remainder of the proceeds from the Bonds, net of transaction costs, is allocated to the liability component of the Bond on the amortised cost basis. Subsequent changes in fair value of the derivative component are recognized in the income statement. As at 31 March 2008, the aggregate carrying value of the Bonds recognized on the consolidated balance sheet of the Group was approximately HK$751 million.

Subsequent to 31 March 2008, the Company received notices of request from all the Bondholders requesting redemption of the Bonds by the Company at the aggregate early redemption amount of approximately US$150.9 million (approximately HK$1,176 million). As such, the carrying value of the liability component of the Bonds was adjusted upward from approximately HK$532 million as at 31 March 2008 to approximately HK$1,176 million. At redemption, the carrying value of the derivative component of the Bonds was credited to the income statement of the Group.

As at 31 March 2008, assets of the Group mainly comprise inventories of HK$3,265 million, trade and bills receivables of HK$2,762 million and property, plant and equipment of HK$1,680 million. A significant decrease in cash and bank balances was observed, which principally resulted from the repayment of interest bearing borrowings. As at 31 March 2008, the Group's total assets were approximately HK$10,031 million.

Major liabilities of the Group as at 31 March 2008 include trade and bills payables of HK$3,834 million, interest-bearing bank and other borrowings of HK$858 million and the Bonds with a carrying value of approximately HK$751 million. Total liabilities of the Group as at 31 March 2008 were approximately HK$7,533 million. As above-mentioned, the Bonds were drawn down in 2007 and have been fully repaid at the early redemption amount of approximately HK$1,176 million by 20 June 2008.

Improvement in the net current assets/(liabilities) position mainly resulted from the equity fund raising and refinancing of short-term borrowings to long-term borrowings in 2007. The Group's gearing ratio (defined as net borrowings divided by equity attributable to equity holders of the Company) as at 31 March 2008 was approximately 39.2%. However, if the Bonds were taken at the early redemption amount of HK$1,176 million rather than the carrying value of 31 March 2008 of HK$751 million, the gearing ratio would increase to 57.1%.

As mentioned above, the Bonds which were included in the Group's consolidated balance sheets under non-current liabilities and had a book value of HK$881 million and HK$751 million as at 31 December 2007 and 31 March 2008 respectively have been fully repaid out of the Deposits in June 2008. The Deposits totaling HK$1,206 million are now included in the Group's accounts as current liabilities. As at 31 March 2008, the Group had net current assets of approximately HK$1,108 million. After taking into account the repayment of HK$1,176 million of the Bonds out of the Deposits, the Group would face a net current liabilities position.

The Deposits totaling HK$1,206 million, together with accrued interests, are accounted for as current liabilities and would be fully repayable if the Subscription Agreements do not become unconditional by the Long Stop Date. On the other hand, if the Subscription is completed, such current liabilities would be eliminated and the Group would be restored to a net current asset position.

Prospects

Looking forward, the Group aims to maintain its dominant market position in the PRC by promoting sales of LCD television sets. In emerging markets, the Group would still focus on sales of CRT television sets. As for the European market, now that the restructuring has been completed, the Group believes that better performance can be achieved through the new business model which focuses on a few major customers to reduce overhead costs, in particular sales and marketing costs. In the North American market, the Group aims to retain its leading position in CRT market as well as to increase sales in the fast expanding LCD market.

In view of the continuing highly competitive environments that the Group expects, the Group intends to focus on cost control. While maintaining its competitive advantages in the traditional CRT market, the Group is devoting efforts to capture growth opportunities in the expanding LCD markets.

4. Effects on shareholding

The effect of the Subscription and the Assignment of Loan on the shareholdings of the Company is shown as follows:

	Shareholding as at the Latest Practicable Date		Shareholding upon completion of the Subscription but before the Assignment of Loan		Shareholding upon completion of the Subscription and the Assignment of Loan	
	Number of Shares	*Approximate Percentage (%)*	*Number of Shares*	*Approximate Percentage (%)*	*Number of Shares*	*Approximate Percentage (%)*
TCL Industries	2,304,181,933	39.487	5,563,992,842	54.433	5,991,354,741	56.262
Mr. Li	111,666,579	1.914	184,393,851	1.804	184,393,851	1.732
Mr. Leong	1,000,000	0.017	8,272,727	0.081	8,272,727	0.078
Mr. Yuan	–	–	3,636,363	0.036	3,636,363	0.034
Ms. Lu	–	–	1,090,909	0.011	1,090,909	0.010
TCL Industries' other concert parties	–	–	1,041,894,575	10.193	1,041,894,575	9.784
TCL Industries and concert parties	2,416,848,512	41.418	6,803,281,267	66.558	7,230,643,166	67.900
Mr. Wang Kangping	150,000	0.003	150,000	0.001	150,000	0.001
Public Shareholders	3,418,243,078	58.579	3,418,243,078	33.441	3,418,243,078	32.099
Independent Shareholders	3,418,393,078	58.582	3,418,393,078	33.442	3,418,393,078	32.100
Total	5,835,241,590	100	10,221,674,345	100	10,649,036,244	100

Upon completion of the Subscription but before the Assignment of Loan, TCL Industries and concert parties' shareholdings would be increased by approximately 25.140% from approximately 41.418% to 66.558%, while Independent Shareholders' holdings would be diluted by approximately 25.140% from approximately 58.582% to 33.442%. As the Subscription and the Assignment of Loan are expected to significantly ease the liquidity position of the Group, we consider this degree of dilution to Independent Shareholders is acceptable.

Upon completion of the Subscription and the Assignment of Loan, TCL Industries and concert parties' shareholdings would be further increased by approximately 1.342% from approximately 66.558% to 67.900%, while Independent Shareholders' holdings would be further diluted by approximately 1.342% from approximately 33.442% to 32.100%. Taking into account that the capitalization of the Loan would help to bring the Group to a healthier financial and gearing ratio, we consider a slight further dilution of Independent Shareholders' holding justified.

5. Subscription Price

The Subscription Price of the Subscription Shares and the Consideration Shares was agreed after arm's length negotiations between the Company and the Subscribers and TCL Industries respectively, after taking into account, among other factors, the market prices of the Shares after the announcement of the Subscription and the Assignment of Loan.

The Subscription Price of HK$0.275 represents:

(i) a discount of 15% to the average closing price of HK$0.324 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 10 trading days immediately after the date of the Announcement, that is from 10 June 2008 up to and including 23 June 2008. This was indeed the agreed basis for setting the Subscription Price;

(ii) a discount of approximately 24.66% to the closing price of HK$0.365 per Share as quoted on the Hong Kong Stock Exchange on 29 May 2008, being the last trading day for the Shares immediately before the issue of the Announcement;

(iii) a discount of approximately 23.82% to the average closing price of HK$0.361 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the last 5 trading days up to and including the Last Trading Day;

(iv) a discount of approximately 25.07% to the average closing price of HK$0.367 per Share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the last 10 trading days up to and including the Last Trading Day;

(v) a discount of approximately 9.84% to the closing price of HK$0.305 per Share as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date;

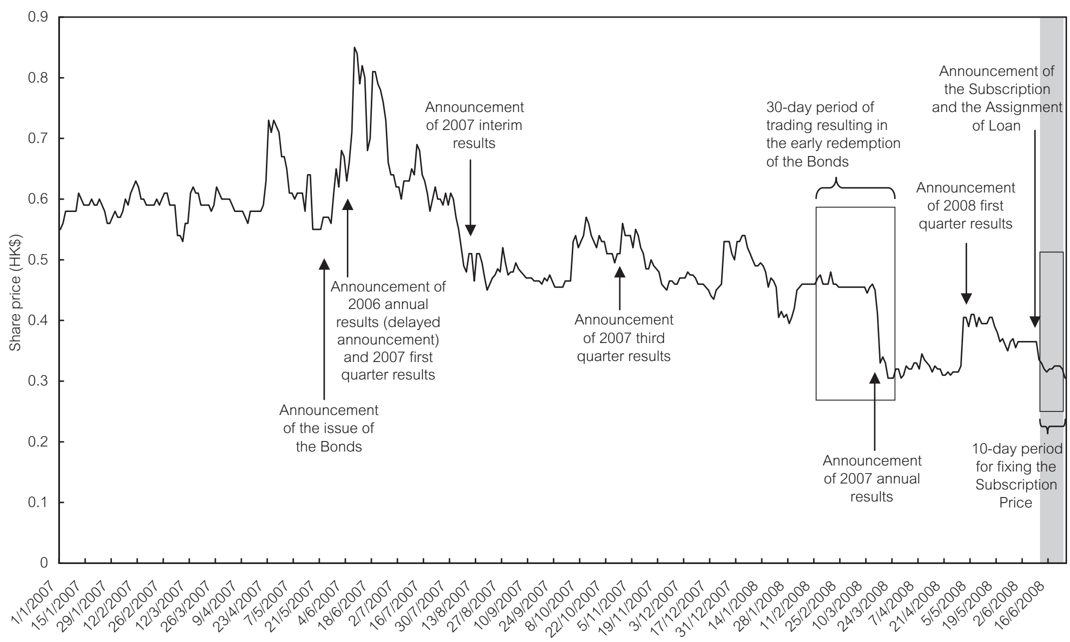
(vi) a discount of approximately 19.59% to the audited net tangible asset value ("NTAV") of approximately HK$0.342 per Share as at 31 December 2007; and

(vii) a discount of approximately 27.82% to the unaudited NTAV of approximately HK$0.381 per Share as at 31 March 2008.

6. Share price performance

Analysis of share price

Set out below is the graph showing the closing prices of the Shares quoted on the Stock Exchange for the period from 1 January 2007 up to the Latest Practicable Date:



Souce: Bloomberg

As noted from the chart above, the closing prices of the Shares had been at high levels until July 2007. Since then, the closing prices of the Shares dropped gradually from the highest of HK$0.84 on 6 July 2007 to a record closing low of HK$0.30 on 27 March 2008, which in our view is the market reaction to the Group's release of its 2007 financial results announced on 13 March 2008, which recorded a net loss of HK$253 million. Although the net loss was significantly reduced from the net loss of HK$2,500 million for the year ended 31 December 2006, the prices of the Shares dropped by approximately 26.7% to HK$0.33 in the next two trading days. Pursuant to the terms and conditions of the Bonds, early redemption would be triggered if the closing price of the Shares of any 20 trading days falling within 30 consecutive trading days was at least 30% below the conversion price of HK$0.65. Subsequent to the drop of price of the Shares following the 2007 results announcement, the early redemption condition as mentioned above was triggered. The prices of the Shares went up after the release of first quarter net profit of approximately HK$170 million, from HK$0.32 on 29 April 2008 to HK$0.40 on 30 April 2008. Since then, the prices of the Shares had been quite stable and hovering between HK$0.38 and HK$0.405 until the date of the Announcement. Following the announcement of the Subscription and the Assignment of Loan, the prices of the Shares dropped and fluctuated within a range of HK$0.32 and HK$0.33, which, in our view, is the market reaction to the liquidity squeeze faced by the Group as a result of the early repayment of the Bonds (please see discussion in the above paragraph headed "Reasons for and benefits arising from the Subscription and the Assignment of Loan"). As at the Latest Practicable Date, the Shares closed at HK$0.305.

7. Analysis of Subscription Price

Subscription Price to earnings ratio ("PER")

The Group made losses for the three years ended 31 December 2007, although it returned to profitability for the three months ended 31 March 2008. As the Group has not recorded a full year profit, we do not consider that an analysis of the Subscription Price on a PER basis is practicable at the present time.

Subscription Price to book ratio ("PBR")

The Subscription Price represents a discount of 19.59% and 27.82% to the audited NTAV per Share of HK$0.342 as at 31 December 2007 and the unaudited NTAV per Share of HK$0.381 as at 31 March 2008 respectively. The Subscription Agreements and the Assignment Agreement would therefore involve a degree of dilution in NTAV per Share. However, the Group is principally engaged in the manufacturing and sales of colour television sets and other audio visual products and, providing it has an adequate equity base, shows signs of improved results which are likely to be the main yardstick of valuation in due course. Consequently, we do not consider that the degree of dilution in NTAV is a material adverse factor for Independent Shareholders.

Subscription price to market price

As the news of the liquidity squeeze faced by the Group after early redemption of the Bonds was not made known to the market until after the release of the Announcement, we consider it more relevant to assess the pricing basis with reference to the post-Announcement share performance. We could not identify other placements, subscriptions of shares or fund raising activities made by companies listed on the Hong Kong Stock Exchange that are priced with reference to post-announcement market prices of the shares. In the case of the Subscription, given the net current liabilities position that the Group is facing after early repayment of the Bonds, we consider it reasonable to set the Subscription Price at a 15% discount to the average market price of the Shares over a 10-day post-Announcement period. The Subscription Price for transactions with connected persons including TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu will be the same as the price at which the Shares are issued to the other Subscribers. This, in our view, is a fair mechanism to set the pricing for issue of Shares to connected persons.

8. Other financing alternatives

We are informed that the Directors had considered other alternatives to finance the repayment of the Bonds, including a rights issue or open offer. However, given the pressing time-table for repaying the Bonds at the early redemption amount and the large sum involved, it was not practicable for the Company to raise sufficient funds through these means. The Subscribers made full payment of the Subscription monies in the form of the Deposits soon after execution of the Subscription Agreements and at the time when the Subscription Agreements have not yet become unconditional. Repayment of Deposits is not protected by any security charge over the Group's assets. The Company would have found it difficult to obtain such terms in fully arm's length transactions.

Besides timing, given the net current liabilities position that the Group faced upon receipt of notice of repayment from the Bondholders, the management informed that the Group has experienced difficulties in finding underwriters for a proposed rights issue or open offer on commercially acceptable terms.

9. Financial effects

Cash flow and liabilities

The Deposits totaling HK$1,206 million, together with accrued interests, are fully repayable if the Subscription Agreements do not become unconditional. Completion of the Subscription will ease the cash flow and liquidity position of the Group, and the Assignment of Loan would further strengthen the financial position of the Group by reducing the level of outstanding liabilities and enhancing equity base.

Net tangible assets

As the Subscription Price of HK$0.275 is at a discount to the unaudited NTAV per Share of HK$0.381 as at 31 March 2008, the NTAV per Share is expected to decrease upon the completion of the Subscription and the Assignment of Loan. We consider this level of dilution acceptable as the Subscription and Assignment of Loan would significantly ease the cash flow and liquidity position, and enhance the equity base of the Group.

Gearing

Based on the financial statements of the Group as at 31 March 2008, the gearing ratio will improve significantly from approximately 39.2% to approximately 5.8% following the completion of the Subscription but before the Assignment of Loan, and to approximately 5.6% following the completion of the Subscription and the Assignment of Loan. Such improved gearing ratio will put the Group in a much stronger position for future financing exercises.

10. Whitewash Waiver

The shareholding of TCL Industries and its respective concert parties in the Company will increase from approximately 41.418% to approximately 66.558% immediately following completion of the Subscription and to approximately 67.900% immediately following completion of the Subscription and the Assignment of Loan. Under Rule 26.1 of the Hong Kong Takeovers Code, TCL Industries is required to make a mandatory general offer for all the issued Shares not owned by it and its concert parties immediately following completion of the Assignment of Loan and/or the Subscription unless the Whitewash Waiver is obtained. In this regard, TCL Industries has made an application to the Executive for the Whitewash Waiver which is subject to the approval of the Independent Shareholders on a vote by poll.

The Subscription and the Assignment of Loan are conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the EGM. If the Whitewash Waiver is not approved, the Subscription and the Assignment of Loan will not proceed and no general offer obligation will be triggered. In the event that the Subscription and the Assignment of Loan cannot proceed, the Group and the Shareholders will not be able to enjoy the benefits that would arise from the Subscription and the Assignment of Loan, as discussed earlier in this letter. In particular, the Group would then face an immediate problem of how to finance the repayment of the Deposits.

Shareholders should note that TCL Industries and parties acting in concert with it will hold approximately 66.558% of the enlarged issued ordinary share capital of the Company after completion of the Subscription and approximately 67.900% of the enlarged issued ordinary share capital of the Company after completion of the Subscription and the Assignment of Loan. As such, any further acquisition of voting rights in the Company by TCL Industries and parties acting in concert with it would not trigger an obligation to make a general offer under the Hong Kong Takeovers Code. However, these parties have long held a controlling interest (over 30%) in the Company and in any event we consider the Subscription and Assignment of Loan the only practicable means to achieve the necessary strengthening of the Group's financial position.

DISCUSSION AND ANALYSIS

The Group took a bold step in expanding its business in Europe and North America in 2004. However, owing to adverse operating conditions, three financial years of significant losses followed, putting the Group under financial stress. One of the steps taken to address this position was the issue of the Bonds in July 2007 for an aggregate amount equivalent to approximately HK$1.1 billion. Although long term in principle, the Bonds contained a number of financial covenants restrictive conditions, including one which allowed holders to demand repayment if the market prices of the Shares traded at 30% or more below the conversion price over a certain period. This may have seemed a remote possibility when the Bonds were issued but following a weak share price performance in March 2008 (see chart in the section headed "Share price performance" above), this event did in fact occur on 25 March 2008. On early redemption, the Bonds became repayable on demand at their face amount plus a premium designed to compensate holders for a below-market coupon. Consequently, an amount equivalent to HK$1,176 million was required by the Group at short notice. Given the urgency, the past three years' losses, a stretched balance sheet and difficult conditions in the financial markets generally, the parent group was the more realistic source of fund for the Group to turn to. A measure of the urgency of the situation is that the Subscribers agreed to pay the Deposits in advance of Completion, which in our experience is a term unlikely to the available from arms' length commercial sources.

Given the circumstances, we consider it reasonable that the Subscription Price has been set at a discount to the market price after the news of the liquidity squeeze faced by the Group resulted from the early redemption of the Bonds has been made known to the market. The Subscription Price of HK$0.275 is somewhat below the NTAV of HK$0.381 per Share as at 31 March 2008 but we do not consider this a critical factor.

The opportunity is also being taken to "tidy up" an existing loan from the parent group.

Both the Subscription and the Assignment of Loan strengthen the liquidity and net asset base of the Group. They do involve a significant degree of dilution in the shareholding percentage of the Independent Shareholders but we consider this inevitable in the circumstances in which the Group found itself.

The Subscription and Assignment of Loan are conditional on Independent Shareholders approving the Whitewash Waiver. This will involve the parent group and its concert parties holding over 50% of the Shares and consequently being able to make subsequent purchases without triggering a general offer obligation. However, these parties have long held a controlling interest (over 30%) in the Company and in any event we consider the Subscription and Assignment of Loan the only practicable means to achieve the necessary strengthening of the Group's financial position.

RECOMMENDATION

Having taken into account the above principal factors, we consider that the Subscription and the Assignment of Loan are entered into in the Group's ordinary and usual course of business and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Subscription Agreements and the Assignment Agreement, as well as the grant of the Whitewash Waiver, are in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Subscription Agreements, the Assignment Agreement and the Whitewash Waiver.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director"

1. SUMMARY FINANCIAL INFORMATION

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 2005, 2006 and 2007, respectively, as extracted from the annual reports of the Group for the three years ended 31 December 2005, 2006 and 2007, respectively. The auditors' reports, which are audited by Ernst & Young, as set out in the annual reports of the Group for each of the three years ended 31 December 2005, 2006 and 2007, respectively, were unqualified.

	Year ended 31 December		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
CONTINUING OPERATIONS			
TURNOVER	21,294,104	29,186,823	32,499,945
LOSS BEFORE TAX	(201,263)	(2,411,311)	(578,574)
Tax	(51,916)	(96,523)	(107,311)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(253,179)	(2,507,834)	(685,885)
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	–	7,362	(17,382)
LOSS FOR THE YEAR	(253,179)	(2,500,472)	(703,267)
Attributable to:			
Equity holders of the parent	(262,016)	(2,497,314)	(598,893)
Minority interests	8,837	(3,158)	(104,374)
	(253,179)	(2,500,472)	(703,267)
Dividends	Nil	Nil	Nil
Loss per share attributable to ordinary equity holders of the parent *(Note)*			
Basic	HK(5.13) cents	HK(55.99) cents	HK(18.66) cents
Diluted	HK(5.94) cents	N/A	N/A
ASSETS, LIABILITIES AND MINORITY INTERESTS			
Total assets	10,779,873	12,397,004	18,151,136
Total liabilities	(8,516,299)	(10,706,962)	(14,052,144)
Minority interests	(104,518)	(88,876)	(108,476)
	2,159,056	1,601,166	3,990,516

Note: The calculations of basic and diluted loss per share amounts are based on:

	2007 HK$'000	2006 HK$'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	(262,016)	(2,504,676)	(581,511)
From a discontinued operation	–	7,362	(17,382)
	(262,016)	(2,497,314)	(598,893)
Interest on convertible bonds	68,456	–	6,400
Transaction costs related to the derivative component of convertible bonds	19,482	–	–
Less: Fair value gain on the derivative component of convertible bonds	(241,417)	–	–
Loss for the purpose of diluted loss per share calculation	(415,495)	(2,497,314)	(592,493)
Attributable to:			
Continuing operations	(415,495)	(2,504,676)	(575,111)
Discontinued operation	–	7,362	(17,382)
	(415,495)	(2,497,314)	(592,493)

		Number of shares	
	2007	2006 (Restated)	2005
Shares			
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	5,108,197,980	4,460,516,259*	3,210,011,179
Effect of dilution – weighted average number of ordinary shares:			
Deemed conversion of all convertible bonds	1,889,437,059	–	105,886,421
Weighted average number of ordinary shares used in diluted loss per share calculation	6,997,635,039	4,460,516,259*	3,315,897,600

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 (note 38) to reflect the bonus element inherent in the rights issue.

The share options outstanding during the three years ended 31 December 2007 had an anti-dilutive effect on the basic loss per share and were therefore, ignored in the calculation of diluted loss per share.

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

2. SUMMARY AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated financial statements of the Group for the year ended 31 December 2007 and the notes thereto as extracted from pages 59 to 167 of the annual report of the Company for the year ended 31 December 2007. References to page number in this section are to the page numbers of such annual report of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CONTINUING OPERATIONS			
TURNOVER	6	21,294,104	29,186,823
Cost of sales		(17,727,588)	(24,690,655)
Gross profit		3,566,516	4,496,168
Other revenue and gains		229,333	170,405
Selling and distribution costs		(2,857,109)	(4,338,220)
Administrative expenses		(889,789)	(1,135,545)
Research and development costs		(139,046)	(383,567)
Other operating expenses		(98,728)	(245,928)
		(188,823)	(1,436,687)
Costs in connection with the restructuring and winding-down of the EU Business, net	7	17,974	(694,868)
Finance costs	8	(269,613)	(245,622)
Share of profits and losses of:			
Jointly-controlled entities		(3,925)	3,589
Associates		1,707	(70)
		(442,680)	(2,373,658)
Fair value gain on the derivative component of convertible bonds	35	241,417	–
Fair value loss of financial assets at fair value through profit or loss		–	(37,653)
LOSS BEFORE TAX	9	(201,263)	(2,411,311)
Tax	12	(51,916)	(96,523)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(253,179)	(2,507,834)

	Notes	2007 HK$'000	2006 HK$'000
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	14	–	7,362
LOSS FOR THE YEAR		(253,179)	(2,500,472)
Attributable to:			
Equity holders of the parent	13	(262,016)	(2,497,314)
Minority interests		8,837	(3,158)
		(253,179)	(2,500,472)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic			
– For loss for the year		HK(5.13) cents	HK(55.99) cents
– For loss from continuing operations		HK(5.13) cents	HK(56.15) cents
Diluted			
– For loss for the year		HK(5.94) cents	N/A
– For loss from continuing operations		HK(5.94) cents	N/A

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	1,667,073	1,993,791
Prepaid land lease payments	18	75,539	86,318
Goodwill	19	119,638	119,638
Other intangible assets	20	42,532	67,784
Interests in jointly-controlled entities	22	115,571	110,444
Interests in associates	23	78,595	69,566
Available-for-sale investments	24	1,008	2,325
Prepaid royalty	25	189,235	269,596
Deferred tax assets	36	16,852	20,678
Total non-current assets		2,306,043	2,740,140
CURRENT ASSETS			
Inventories	26	3,229,362	3,206,919
Trade receivables	27	2,734,187	3,098,375
Bills receivable		613,408	496,755
Other receivables	29	786,336	926,925
Tax recoverable		15,196	23,257
Pledged deposits	30	–	10,000
Cash and bank balances	30	1,095,341	1,894,633
Total current assets		8,473,830	9,656,864
CURRENT LIABILITIES			
Trade payables	31	4,136,749	4,238,563
Bills payable		272,988	403,752
Tax payable		95,963	111,124
Other payables and accruals	32	1,483,901	2,099,535
Provisions	33	349,914	805,328
Interest-bearing bank and other borrowings	34	913,525	2,660,582
Due to TCL Corporation	28	220,359	347,999
Total current liabilities		7,473,399	10,666,883
NET CURRENT ASSETS/(LIABILITIES)		1,000,431	(1,010,019)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,306,474	1,730,121

	Notes	2007 HK$'000	2006 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,306,474	1,730,121
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	34	131,041	–
Liability component of convertible bonds	35	506,698	–
Derivative component of convertible bonds	35	374,514	–
Deferred tax liabilities	36	13,772	21,908
Pensions and other post-employment benefits	37	16,875	18,171
Total non-current liabilities		1,042,900	40,079
Net assets		2,263,574	1,690,042
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	38	583,772	390,295
Reserves	39	1,575,284	1,210,871
		2,159,056	1,601,166
Minority interests		104,518	88,876
Total equity		2,263,574	1,690,042

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Total equity at 1 January		1,690,042	4,098,992
Issue of shares	38	780,591	–
Shares repurchased	38	(7,481)	–
Share issuance expenses	38	(7,521)	–
Disposal of subsidiaries	39	–	(19,907)
Equity-settled share option arrangements	39	19,743	22,295
		2,475,374	4,101,380
Total income and expense recognised directly in equity:			
Exchange differences on translation of the financial statements of foreign entities	39	41,379	89,134
Loss for the year	39	(253,179)	(2,500,472)
Total income and expense for the year		(211,800)	(2,411,338)
Total equity at 31 December		2,263,574	1,690,042
Total income and expense for the year:			
Attributable to:			
Equity holders of the parent		(227,442)	(2,411,645)
Minority interests		15,642	307
		(211,800)	(2,411,338)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		(201,263)	(2,411,311)
From a discontinued operation	14	–	7,362
Adjustments for:			
Finance costs	8	269,613	246,387
Share of profits and losses of jointly-controlled entities and associates		2,218	(3,519)
Depreciation	9	245,746	408,091
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net	9	(18,672)	11,562
Bank interest income	9	(19,759)	(25,345)
Fair value loss of financial assets at fair value through profit or loss		–	37,653
Fair value gain on derivative component of convertible bonds		(241,417)	–
Impairment of available-for-sale investments	9	–	2,550
Impairment of items of property, plant and equipment	9	7,851	37,315
Impairment of other intangible assets	9	36,640	–
Costs in connection with the restructuring and winding-down of the EU Business, net	7	(17,974)	694,868
Gain on disposal of financial assets at fair value through profit or loss	9	–	(3,179)
Amortisation of other intangible assets	9	4,183	6,464
Amortisation of prepaid land lease payments	9	2,842	2,543
Equity-settled share option expense	9	19,743	22,295
Excess over the cost of a business combination	9	(981)	–
		88,770	(966,264)
Decrease in inventories		193,309	1,149,668
Decrease in trade receivables		444,088	1,783,962
Decrease/(increase) in bills receivable		(82,941)	288,711
Decrease in other receivables		159,148	731,926
Decrease in trade payables		(268,247)	(1,282,726)
Decrease in bills payable		(157,824)	(574,788)
Increase/(decrease) in other payables and accruals		(625,725)	141,341
Increase/(decrease) in provisions		(374,414)	27,417
Decrease in pensions and other post-employment benefits		(1,873)	(2,571)
Cash generated from/(used in) operations		(625,709)	1,296,676
Interest paid		(204,704)	(246,387)
Income taxes paid		(63,424)	(124,307)
Net cash inflow/(outflow) from operating activities		(893,837)	925,982

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		(893,837)	925,982
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	17	(128,028)	(225,336)
Prepayment of land lease payments	18	(11,908)	(25,195)
Purchases of available-for-sale investments		(1,008)	(1,949)
Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments		364,246	173,403
Proceeds from disposal of financial assets at fair value through profit or loss		–	13,120
Proceeds from disposal of other intangible assets		16,624	–
Disposal of subsidiaries	40(c)	–	357,698
Deconsolidation of subsidiaries	40(d)	(228,338)	(1,524)
Decrease in pledged deposits		10,000	80,165
Acquisition of a subsidiary	40(b)	(20,026)	–
Investment in an associate		–	(69,074)
Interest received		19,759	25,345
Dividends received from jointly-controlled entities		–	5,657
Net cash inflow from investing activities		21,321	332,310
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	38	780,591	–
Share issuance expenses	38	(7,521)	–
Repurchase of shares	38	(7,481)	–
Proceeds from issue of convertible bonds		1,060,785	–
New bank and other loans		6,274,232	8,642,512
Repayment of bank loans		(7,889,161)	(9,284,566)
Decrease in loans from TCL Corporation		(150,988)	(452,561)
Loan from Thomson		–	161,203
Repayment of a loan from Thomson		–	(256,601)
Net cash inflow/(outflow) from financing activities		60,457	(1,190,013)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(812,059)	68,279
Cash and cash equivalents at beginning of year		1,841,585	1,720,490
Effect of foreign exchange rate changes, net		65,815	52,816
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,095,341	1,841,585
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	30	1,095,341	1,894,633
Bank overdrafts	34	–	(53,048)
		1,095,341	1,841,585

BALANCE SHEET
31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	1,165,196	1,157,217
CURRENT ASSETS			
Due from subsidiaries	21	1,986,424	1,460,514
Other receivables	29	2,954	3,013
Cash and bank balances	30	412	5,041
Total current assets		1,989,790	1,468,568
CURRENT LIABILITIES			
Tax payable		5,828	5,828
Other payables and accruals	32	45,554	55,404
Interest-bearing bank and other borrowings	34	–	1,151,377
Total current liabilities		51,382	1,212,609
NET CURRENT ASSETS		1,938,408	255,959
TOTAL ASSETS LESS CURRENT LIABILITIES		3,103,604	1,413,176
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	35	506,698	–
Derivative component of convertible bonds	35	374,514	–
Total non-current liabilities		881,212	–
Net assets		2,222,392	1,413,176
EQUITY			
Issued capital	38	583,772	390,295
Reserves	39	1,638,620	1,022,881
Total equity		2,222,392	1,413,176

NOTES TO FINANCIAL STATEMENTS

31 December 2007

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were 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

2. BASIS OF PRESENTATION

Wind-down and liquidation of TTE Europe SAS ("TTE Europe") and its subsidiaries (collectively the "EU Group")

Liquidation basis of accounting

As a result of the Group's decision to significantly wind down the loss-making European operation (the "EU Business") 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 period from 1 January to 29 May 2007 and the year ended 31 December 2006.

Under the liquidation basis of accounting, assets are stated at their estimated net realisable values, 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.

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 as at 31 December 2006.

Further details of the costs relating to the wind-down and liquidation 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.

Upon the filing of the declaration of insolvency to the French court on 24 May 2007 by TTE Europe, 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 deconsolidated the EU Group on 29 May 2007 from the Group's financial statements for the year ended 31 December 2007.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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 the derivative financial instruments, 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 2007. 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.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 46 to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees for identified services provided in accordance with the Company's share option schemes, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award credits, HK(IFRIC)-Int 13 is not applicable to the Group and therefore unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group's defined benefit schemes are unfunded, the interpretation is unlikely to have any financial impact on the Group.

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 associates, 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.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Goodwill

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.

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

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.

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.

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 and goodwill, 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, but 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.

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 depreciation methods 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.

Patents and licences

Purchased patents and licences 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 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

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. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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 less any allowance for impairment. 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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments".

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. 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.

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 TCL Corporation, interest-bearing bank and other borrowings and liability component of convertible bonds 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. The related interest expense is recognised within "finance costs" on the income statement.

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 less 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.

Convertible bonds

Convertible bonds which are issued with embedded derivative features are split into a liability component and a derivative component and are accounted for as follows:

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement. The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as considerations for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the total carrying amount of the liability and derivative components is recognised in the income statement.

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.

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 that are readily convertible into known amounts of cash, 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, associates 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, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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 values 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) income 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 38 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 (where it is transferred to the share premium account) or the option expires/lapses (where it is released directly to retained profits).

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 or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or 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 dates 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.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities and associates 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In addition to the judgements and estimates made by the Group in applying the liquidation basis of accounting for the EU Group in note 2 to the financial statements and 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 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. 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 assets 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 2007 were HK$119,638,000 (2006: HK$119,638,000) and HK$19,958,000 (2006: HK$56,598,000), respectively. Further details are given in notes 19 and 20 to the financial statements, respectively.

(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 33, 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 is disclosed in notes 37, 38 and 46, 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 prior year);

(c) the home networking segment (renamed from "audio-visual" for current year's presentation) 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.

(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 2007 and 2006.

Group

	Continuing operations										Discontinued operation			
	Television		Home Networking		Others		Eliminations		Total		Computer		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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	17,867,130	26,368,102	3,000,836	2,224,068	426,138	594,653	–	–	21,294,104	29,186,823	–	1,568,162	21,294,104	30,754,985
Intersegment sales	1,283,250	1,234,744	38,217	417,992	10,894	4,705	(1,332,361)	(1,657,441)	–	–	–	–	–	–
Total	19,150,380	27,602,846	3,039,053	2,642,060	437,032	599,358	(1,332,361)	(1,657,441)	21,294,104	29,186,823	–	1,568,162	21,294,104	30,754,985
Segment results	(60,273)	(1,220,459)	95,722	17,589	(63,977)	(87,516)	–	–	(28,528)	(1,290,386)	–	5,501	(28,528)	(1,284,885)
Bank interest income									19,759	22,719	–	2,626	19,759	25,345
Corporate expenses									(180,054)	(169,020)	–	–	(180,054)	(169,020)
Finance costs									(269,613)	(245,622)	–	(765)	(269,613)	(246,387)
Share of profits and losses of:														
Jointly-controlled entities	(3,925)	3,016	–	–	–	573	–	–	(3,925)	3,589	–	–	(3,925)	3,589
Associates	(635)	–	–	–	2,342	(70)	–	–	1,707	(70)	–	–	1,707	(70)
Costs in connection with the restructuring and winding-down of the EU business, net	17,974	(694,868)	–	–	–	–	–	–	17,974	(694,868)	–	–	17,974	(694,868)
									(442,680)	(2,373,658)	–	7,362	(442,680)	(2,366,296)
Fair value gain on the derivative component of convertible bonds	–	–	–	–	241,417	–	–	–	241,417	–	–	–	241,417	–
Fair value loss of financial assets at fair value through profit or loss	–	–	–	–	–	(37,653)	–	–	–	(37,653)	–	–	–	(37,653)
Profit/(loss) before tax									(201,263)	(2,411,311)	–	7,362	(201,263)	(2,403,949)
Tax									(51,916)	(96,523)	–	–	(51,916)	(96,523)
Profit/(loss) for the year									(253,179)	(2,507,834)	–	7,362	(253,179)	(2,500,472)
Assets and liabilities														
Segment assets	10,719,483	12,091,212	1,066,871	721,980	128,891	212,571	(2,466,017)	(2,830,198)	9,449,228	10,195,565	–	–	9,449,228	10,195,565
Interests in jointly-controlled entities	115,571	110,444	–	–	–	–	–	–	115,571	110,444	–	–	115,571	110,444
Interests in associates	2,153	–	–	–	76,442	69,566	–	–	78,595	69,566	–	–	78,595	69,566
Unallocated assets									1,136,479	1,968,381	–	–	1,136,479	1,968,381
Bank overdrafts included in segment assets	–	53,048	–	–	–	–	–	–	–	53,048	–	–	–	53,048
Total assets									10,779,873	12,397,004	–	–	10,779,873	12,397,004
Segment liabilities	10,007,504	11,426,525	496,674	349,733	463,076	581,039	(4,558,454)	(4,531,505)	6,408,800	7,825,792	–	–	6,408,800	7,825,792
Unallocated liabilities									2,107,499	2,828,122	–	–	2,107,499	2,828,122
Bank overdrafts included in segment assets	–	53,048	–	–	–	–	–	–	–	53,048	–	–	–	53,048
Total liabilities									8,516,299	10,706,962	–	–	8,516,299	10,706,962
Other segment information:														
Depreciation and amortisation	238,411	381,925	5,278	14,940	9,082	17,243	–	–	252,771	414,108	–	2,990	252,771	417,098
Impairment and fair value losses recognised in the income statement	7,851	39,865	–	–	36,640	37,653	–	–	44,491	77,518	–	–	44,491	77,518
Costs in connection with the restructuring and winding-down of the EU Business, net	(17,974)	694,868	–	–	–	–	–	–	(17,974)	694,868	–	–	(17,974)	694,868
Capital expenditure	110,624	194,214	13,284	17,129	19,118	12,411	–	–	143,026	223,754	–	1,582	143,026	225,336
Excess over the cost of a business combination	–	–	–	–	(981)	–	–	–	(981)	–	–	–	(981)	–

(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 2007 and 2006.

Group

	Mainland China		Europe		North America		Others		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	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	10,401,959	12,224,685	875,145	3,879,008	3,645,785	6,553,278	6,371,215	8,098,014	21,294,104	30,754,985
Attributable to a discontinued operation	–	(1,568,162)	–	–	–	–	–	–	–	(1,568,162)
Revenue from continuing operations	10,401,959	10,656,523	875,145	3,879,008	3,645,785	6,553,278	6,371,215	8,098,014	21,294,104	29,186,823
Other segment information:										
Segment assets	4,734,178	4,634,824	714,269	724,580	1,968,670	2,179,171	2,032,111	2,656,990	9,449,228	10,195,565
Capital expenditure	70,522	96,681	13,229	38,593	39,750	74,724	19,525	15,338	143,026	225,336

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

In 2006, the Group had implemented a number of measures in restructuring the EU Business and finally, 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 and the gains arose in connection with the restructuring and winding-down of the EU Business for the two years ended 31 December 2007 were summarised below:

	Group	
	2007	**2006**
	HK$'000	*HK$'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	–	(87,211)
Gain on deconsolidation of subsidiaries *(note 40(d))*	(1,350)	(12,126)
Gain on disposal of other intangible assets	(16,624)	–
	(17,974)	694,868

8. FINANCE COSTS

	Group 2007 HK$'000	Group 2006 HK$'000
Interest on:		
Bank loans and overdrafts	161,208	197,900
Other loans wholly repayable within five years	3,363	11,595
Liability component of convertible bonds *(note 35)*	68,456	–
Loan from Thomson	–	17,432
Loan from TCL Corporation	8,489	18,869
Loans from an associate	8,615	591
	250,131	246,387
Other finance costs:		
Transaction costs related to the derivative component of convertible bonds	19,482	–
	269,613	246,387
Attributable to:		
A discontinued operation *(note 14)*	–	765
Continuing operations reported in the consolidated income statement	269,613	245,622
	269,613	246,387

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	
	2007	**2006**
	HK$'000	*HK$'000*
Cost of inventories sold	17,713,329	26,117,573
Depreciation *(note 17)*	245,746	408,091
Research and development costs	245,542	392,424
Less: Government grants released*	(106,496)	(7,579)
Net research and development costs	139,046	384,845
Amortisation of other intangible assets *(note 20)***	4,183	6,464
Minimum lease payments under operating leases in respect of land and buildings	98,698	66,033
Amortisation of prepaid land lease payments *(note 18)*	2,842	2,543
Auditors' remuneration	17,704	20,494
Employee benefits expense (including directors' remuneration – *note 10*):		
Wages and salaries	1,109,918	1,529,690
Defined contribution expense	79,752	91,166
Defined benefit expense *(note 37)*	7,151	28,070
Equity-settled share option expense *(note 39)*	19,743	22,295
	1,216,564	1,671,221
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments, net	(18,672)	11,562
Gain on disposal of financial assets at fair value through profit or loss	–	(3,179)
Impairment of items of property, plant and equipment***	7,851	37,315
Impairment of other intangible assets***	36,640	–
Impairment of available-for-sale investments	–	2,550
Impairment of trade receivables***	20,787	191,365
Foreign exchange gains, net	(87,812)	(26,580)
Net rental income	(5,095)	(11,860)
Bank interest income	(19,759)	(25,345)
Restructuring costs *(note 33)*	33,450	22,284
Provision for warranties *(note 33)*	381,634	698,334
Reversal of write-down of inventories to net realisable value	(24,036)	(954)
Excess over the cost of a business combination *(note 40(b))*****	(981)	–

\# 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 People's Republic of China (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, the impairment of other intangible assets and the impairment of trade receivables are included in "Other operating expenses" on the face of the consolidated income statement.

**** The excess over the cost of a business combination is included in "Other revenue and gains" 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	
	2007	**2006**
	HK$'000	*HK$'000*
Fees	900	1,088
Other emoluments:		
Salaries, allowances and benefits in kind	4,477	3,912
Discretionary performance related bonuses	3,937	4,183
Employee share option benefits	2,478	3,652
Pension scheme contributions	165	138
	11,057	11,885
	11,957	12,973

(a) Independent non-executive directors

	2007			2006		
	Fees	**Employee share option benefits**	**Total**	**Fees**	**Employee share option benefits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tang Guliang	225	10	235	225	49	274
Mr. Wang Bing	112	10	122	225	49	274
Dr. Hon Fongming, Perry	–	–	–	63	49	112
Mr. Robert Maarten Westerhof	150	–	150	50	–	50
Ms. Wu Shihong	112	–	112	–	–	–
	599	20	619	563	147	710

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(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*
2007						
Executive directors:						
Mr. Li Dongsheng	–	1,397	2,060	1,396	35	4,888
Mr. Leong Yue Wing	–	1,953	847	–	90	2,890
Mr. Yuan Bing	–	78	–	135	–	213
Mr. Shi Wanwen	–	659	1,030	692	40	2,421
Mr. Wang Kangping	–	–	–	49	–	49
Ms. Lu Zhongli	–	390	–	176	–	566
	–	4,477	3,937	2,448	165	11,027
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	–	–	10	–	235
Mr. Alastair Kenneth Ruskin Campbell	38	–	–	–	–	38
Mr. Didier Trutt	38	–	–	–	–	38
	301	4,477	3,937	2,458	165	11,338
2006						
Executive directors:						
Mr. Li Dongsheng	–	1,064	–	825	20	1,909
Mr. Yuan Bing	–	116	–	54	–	170
Mr. Shi Wanwen	–	641	1,132	428	28	2,229
Mr. Wang Kangping	–	–	–	230	–	230
Ms. Lu Zhongli	–	390	–	412	–	802
Mr. Hu Qiusheng	–	489	–	412	15	916
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

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 (2006: one) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2006: four) non-director, highest paid employees for the year are as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	13,456	9,362
Discretionary performance related bonuses	2,451	5,812
Pension scheme contributions	2,427	1,288
Compensation for the loss of office	–	2,944
	18,334	19,406

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

	Number of employees	
	2007	**2006**
HK$2,500,001 to HK$3,000,000	–	1
HK$3,000,001 to HK$3,500,000	1	2
HK$4,000,001 to HK$4,500,000	1	–
More than HK$4,500,001	2	1
	4	4

12. 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 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.

	2007	**2006**
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	14,909	16,662
Overprovision in prior years	–	(1,712)
Current – Elsewhere		
Charge for the year	60,790	80,333
Underprovision/(overprovision) in prior years	(20,577)	2,437
Deferred *(note 36)*	(3,206)	(1,197)
Total tax charge for the year	51,916	96,523

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 the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Loss before tax (including profit before tax from a discontinued operation)	(201,263)	(2,403,949)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	(61,693)	(514,621)
Lower tax rates for specific provinces or local authority	(139,899)	(130,737)
Adjustments in respect of current tax of previous periods	(20,577)	725
Profits and losses attributable to jointly-controlled entities and associates	92	(1,944)
Income not subject to tax	(65,976)	(18,928)
Expenses not deductible for tax	135,916	80,652
Tax losses not recognised	233,192	697,641
Tax losses utilised from previous periods	(28,624)	(18,161)
Others	(515)	1,896
Tax charge at the Group's effective rate	51,916	96,523
Represented by:		
Tax charge attributable to continuing operations reported in the consolidated income statement	51,916	96,523

The share of tax attributable to jointly-controlled entities and associates amounting to HK$4,000 (2006: HK$783,000) and HK$635,000 (2006: Nil), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" 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, jointly-controlled entities and associates enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities and associates 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 2007 includes a profit of HK$23,884,000 (2006: loss of HK$2,700,095,000) which has been dealt with in the financial statements of the Company (note 39).

14. DISCONTINUED OPERATION

On 21 June 2006, the Company and T.C.L. Industries Holdings (H.K.) Limited ("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 operations in the Mainland China. The disposal was completed on 8 September 2006.

The results of the Computer segment for the period from 1 January to 8 September 2006 are presented below:

	2006
	HK$'000
Turnover	1,568,162
Other revenue	12,357
Expenses	(1,572,392)
Finance costs	(765)
Profit before tax from the discontinued operation	7,362
Tax	–
Profit for the year from the discontinued operation	7,362

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

	2006
	HK$'000
Operating activities	(184,904)
Investing activities	75,440
Financing activities	243,708
Net cash inflow	134,244

Earnings per share:	
Basic, from the discontinued operation (restated)	HK0.17 cents*
Diluted, from the discontinued operation	N/A

The calculation of basic earnings per share from the discontinued operation is based on:

	2006
	HK$'000
Earnings	
Profit attributable to ordinary equity holders of the parent from the discontinued operation	7,362

	Number of shares
	2006
	(Restated)
Shares	
Weighted average number of ordinary shares in issue during the year	4,460,516,259*

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 (note 38) to reflect the bonus element inherent in the rights issue.

Diluted earnings per share amount for the year ended 31 December 2006 had not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic earnings per share for that year.

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 loss per share amounts are based on:

	2007 *HK$'000*	2006 *HK$'000*
Loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:		
From continuing operations	(262,016)	(2,504,676)
From a discontinued operation	–	7,362
	(262,016)	(2,497,314)
Interest on convertible bonds	68,456	–
Transaction costs related to the derivative component of convertible bonds	19,482	–
Less: Fair value gain on the derivative component of convertible bonds	(241,417)	–
Loss for the purpose of diluted loss per share calculation	(415,495)	(2,497,314)
Attributable to:		
Continuing operations	(415,495)	(2,504,676)
Discontinued operation	–	7,362
	(415,495)	(2,497,314)

	Number of shares 2007	 2006 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	5,108,197,980	4,460,516,259*
Effect of dilution – weighted average number of ordinary shares:		
Deemed conversion of all convertible bonds	1,889,437,059	–
Weighted average number of ordinary shares used in diluted loss per share calculation	6,997,635,039	4,460,516,259*

* Restated by taking into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 (note 38) to reflect the bonus element inherent in the rights issue.

The share options outstanding during the two years ended 31 December 2007 had an anti-dilutive effect on the basic loss per share and were therefore, ignored in the calculation of diluted loss per share.

Diluted loss per share amount for the year ended 31 December 2006 had not been disclosed, as the share options outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

17. PROPERTY, PLANT AND EQUIPMENT

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 2007							
At 1 January 2007:							
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
At 1 January 2007, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
Additions	27,455	9,279	22,465	27,686	5,422	35,721	128,028
Disposals	(252,693)	(13,698)	(26,582)	(16,032)	(1,306)	(9,266)	(319,577)
Acquisition of a subsidiary *(note 40(b))*	–	–	146	33	377	–	556
Deconsolidation of subsidiaries *(note 40(d))*	–	(1)	(23)	(14)	–	–	(38)
Depreciation provided during the year	(47,040)	(23,099)	(109,532)	(58,720)	(7,355)	–	(245,746)
Impairment	–	–	(5,454)	(2,397)	–	–	(7,851)
Transfers	–	35	28,094	32,051	–	(60,180)	–
Exchange realignment	70,758	3,677	28,894	12,694	1,477	410	117,910
At 31 December 2007, net of accumulated depreciation and impairment	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
At 31 December 2007:							
Cost	1,171,232	90,408	1,318,908	381,006	61,456	20,559	3,043,569
Accumulated depreciation and impairment	(235,826)	(50,170)	(773,745)	(267,418)	(36,865)	(12,472)	(1,376,496)
Net carrying amount	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073

	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 40(c))*	(283,939)	–	(1,145)	(16,201)	(1,979)	–	(303,264)
Deconsolidation of a subsidiary *(note 40(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

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

	2007 HK$'000	2006 HK$'000
Freehold	451,884	438,022
Short term leases	115,923	115,641
Medium term leases	603,425	787,555
	1,171,232	1,341,218

At 31 December 2006, certain of the Group's buildings with a net book value of HK$92,834,000 were pledged to secure general banking facilities granted to a subsidiary of the Company (note 34). Due to the expiry of the relevant banking facilities and the repayment of all relevant borrowings during the year, all the above pledges were released.

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Carrying amount at 1 January	88,581	68,063
Additions	11,908	25,195
Disposals	(25,997)	–
Amortised during the year	(2,842)	(2,543)
Disposal of subsidiaries *(note 40(c))*	–	(4,836)
Exchange realignment	5,681	2,702
Carrying amount at 31 December	77,331	88,581
Current portion included in other receivables *(note 29)*	(1,792)	(2,263)
Non-current portion	75,539	86,318

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

	2007	**2006**
	HK$'000	*HK$'000*
Short term leases	16,126	22,634
Medium term leases	61,205	65,947
	77,331	88,581

19. GOODWILL

Group

	HK$'000
Cost and carrying amount at 1 January 2006	206,639
Cost and carrying amount at 1 January 2006	206,639
Acquisition of minority interests *(note 40(a))*	63,138
Disposal of subsidiaries *(note 40(c))*	(150,139)
Cost and carrying amount at 31 December 2006, 1 January 2007 and 31 December 2007	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 2007, 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 (2006: HK$1,819,000), representing its cost.

Impairment testing of goodwill

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

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 7.7% (2006: 7.6%) and the 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 rate used is before tax and reflects specific risks relating to the unit.

20. OTHER INTANGIBLE ASSETS

Group

	Patents and licences *HK$'000*	Trademarks *HK$'000*	Total *HK$'000*
31 December 2007:			
Cost at 1 January 2007, net of accumulated amortisation	10,132	57,652	67,784
Acquisition of a subsidiary *(note 40(b))*	13,966	1,032	14,998
Amortisation provided during the year	(3,948)	(235)	(4,183)
Impairment during the year	–	(36,640)	(36,640)
Exchange realignment	470	103	573
At 31 December 2007	20,620	21,912	42,532
At 31 December 2007:			
Cost	30,131	58,946	89,077
Accumulated amortisation and impairment	(9,511)	(37,034)	(46,545)
Net carrying amount	20,620	21,912	42,532
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

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$19,958,000 (2006: HK$56,598,000), which have indefinite useful lives. These trademarks are treated as having indefinite useful lives because, in the opinion of the directors, there are no foreseeable limit to the periods 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 of the relevant trademarks is 8.6% (2006: 11%) and the 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.

An impairment loss of HK$36,640,000 (2006: HK$19,137,000) in respect of the Group's trademarks was recognised during the year because the Group has lost a major licensee for the relevant trademarks during the year.

21. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	3,385,297	3,385,297
Due from subsidiaries	2,154,019	1,641,242
Due to subsidiaries	(218,064)	(227,602)
Capital contribution in respect of employee share-based compensation	36,869	25,295
	5,358,121	4,824,232
Impairment *(note)*	(2,206,501)	(2,206,501)
	3,151,620	2,617,731
Less: Portion of amounts due from subsidiaries classified as current assets	(1,986,424)	(1,460,514)
	1,165,196	1,157,217

Note: During the prior year, an impairment was recognised for certain unlisted investments with a carrying amount of HK$3,375,582,000 (before deducting the impairment loss) because the relevant subsidiaries had suffered losses for years or ceased operations. There was no change in the impairment account during the current year.

The balances with subsidiaries are unsecured and interest-free, and have no fixed terms of repayment, except for the balances due from TTE Corporation ("TTE") and its subsidiaries totalling HK$1,986,424,000 (2006: HK$1,460,514,000) which are unsecured and repayable on demand, and of which HK$1,503,053,000 (2006: HK$1,253,471,000) bears interest at 1.05% above inter-bank offer rates per annum (2006: 1.05% above inter-bank offer rates per annum).

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 2007	% of equity attributable to the Company 2006	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
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000,000	100	100	Manufacture and sale of audio-visual products

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2007	2006	Principal activities
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	100	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 S.A.#	Belgium	EUR61,500	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
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

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2007	2006	Principal activities
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
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
TCL Overseas Marketing (Macao Commercial Offshore) Limited	Macao	MOP100,000	100	100	Trading of audio-visual products and components
TCL Operations Polska S.P. ZO.O.	Poland	PLN16,001,500	100	–	Manufacture of audio-visual products

@ 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 Group had charged all its rights, interests, benefit and title in and to the shares of TCL Information Technology Industrial (Group) Company Limited, TCL International Electronics (BVI) Limited, TTE Corporation, TCL Holdings (BVI) Limited, TCL Overseas Holdings Limited, TTE (North America) Holdings Limited, TTE Technology Inc. and TTE Belgium S.A. to the purchaser of the convertible bonds (note 35).

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 2007 HK$'000	Group 2006 HK$'000
Share of net assets	115,571	110,444

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 27 and 31 to the financial statements, respectively.

Particulars of the jointly-controlled entities, both 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.	Paid up capital of 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:

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	127,014	132,984
Non-current assets	16,677	17,494
Current liabilities	(28,120)	(38,016)
Non-current liabilities	–	(2,018)
Net assets	115,571	110,444

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' results:		
Turnover	420,734	666,267
Other revenue	7,658	887
Total revenue	428,392	667,154
Total expenses	(432,313)	(662,419)
Tax	(4)	(1,146)
Profit/(loss) after tax	(3,925)	3,589

23. INTERESTS IN ASSOCIATES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets	78,595	69,566

Particulars of the associates are 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. ("TCL Finance")	RMB500,000,000	PRC	14	Provision of financial services
Guangdong Yijiatong Technical Development of Digital Home Co., Ltd.* ("Guangdong Yijiatong")	RMB10,000,000	PRC	20	Provision of technical services

* Not audited by Ernst & Young Hong Kong or other member firms of the Ernst & Young global network

The Group's shareholdings in TCL Finance and Guangdong Yijiatong are held through indirectly wholly-owned subsidiaries 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 and Guangdong Yijiatong have been accounted for using the equity method in these financial statements, and the financial year end of the above associates is coterminous with that of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007	**2006**
	HK$'000	*HK$'000*
Assets	1,363,264	582,740
Liabilities	806,485	85,840
Revenues	25,758	5,422
Profit/(loss)	12,157	(502)

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	2,690	5,055
Provision for impairment	(1,682)	(2,730)
	1,008	2,325

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) these investments 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. PREPAID ROYALTY

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Total at 31 December	298,490	286,539
Less: Portion classified as current assets *(note 29)*	(109,255)	(16,943)
Non-current portion	189,235	269,596

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 S.A. ("Thomson"), and TTE, a paid-up royalty account with an initial amount of Euro 70 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 dated 28 January 2004 entered into between Thomson and the Group.

In 2006, pursuant to the term sheet dated 12 October 2006 (the "Settlement Term Sheet") and the Master Resolving and Settlement Agreement dated 13 February 2007 (the "Master Agreement"), Thomson repaid TTE an amount of Euro 30.4 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.

26. INVENTORIES

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	830,668	848,461
Work in progress	238,413	271,349
Finished goods	2,160,281	2,087,109
	3,229,362	3,206,919

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, HK$1,174,000 and HK$17,757,000, respectively, were pledged to secure general banking facilities granted to a subsidiary of the Group (note 34). Due to the expiry of the relevant banking facilities and the repayment of all relevant borrowings during the year, all the above pledges were released.

27. TRADE RECEIVABLES

	Note	Group 2007 HK$'000	2006 HK$'000
Due from third parties		3,010,920	3,465,665
Impairment		(317,774)	(411,842)
		2,693,146	3,053,823
Due from related parties:			
TCL Corporation	28	–	1,987
Companies controlled by TCL Corporation	28	25,822	12,291
Thomson and companies controlled by Thomson (collectively the "Thomson Group")*	28	–	10,565
Jointly-controlled entities	28	15,219	19,709
		41,041	44,552
Total		2,734,187	3,098,375

* Thomson ceased to be a related party of the Group on 20 March 2007 and all balances with the Thomson Group as at 31 December 2007 were classified as balances due from third parties.

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 pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks.

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 receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group 2007 HK$'000	2006 HK$'000
Current to 90 days	2,663,295	2,777,622
91 to 180 days	41,570	163,770
181 to 365 days	15,744	119,421
Over 365 days	13,578	37,562
	2,734,187	3,098,375

The movements in provision for impairment of trade receivables are as follows:

	Group 2007 HK$'000	2006 HK$'000
At 1 January	411,842	234,714
Impairment losses recognised	20,787	191,365
Amount written off as uncollectible	(135,153)	(25,311)
Exchange realignment	20,298	11,074
	317,774	411,842

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Neither past due nor impaired	1,467,528	1,527,468
Less than 90 days past due	1,209,883	1,363,924
90 – 180 days past due	28,179	134,425
Over 180 days past due	28,597	72,558
	2,734,187	3,098,375

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

At 31 December 2007, the Group's trade receivables of HK$610,306,000 (2006: HK$764,384,000) (the "Factored Receivables") were factored to certain banks 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.

Accordingly, the advances from the relevant banks of HK$610,306,000 (2006: HK$764,384,000) received by the Group as consideration for the Factored Receivables were recognised as liabilities and included in "interest-bearing bank and other borrowings" (note 34).

28. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/THE THOMSON GROUP/JOINTLY-CONTROLLED ENTITIES

T.C.L. Industries and Thomson are shareholders of the Company and TCL Corporation is the holding company of T.C.L. Industries. The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount of HK$145,591,000 (2006: HK$281,747,000) due to TCL Corporation which bears interest at 5.49% per annum, being the loan interest rate offered by the Export-Import Bank of China (2006: 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China).

29. OTHER RECEIVABLES

		Group		Company	
		2007	**2006**	**2007**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments and deposits		199,576	210,440	2,503	1,051
Other receivables		473,031	497,621	451	775
Prepaid land lease payments	18	1,792	2,263	–	–
Prepaid royalty	25	109,255	16,943	–	–
Due from the Thomson Group *(note)*		–	160,766	–	–
Due from companies controlled by TCL Corporation	28	2,682	1,187	–	1,187
Restructuring costs reimbursement receivable from Thomson		–	37,705	–	–
		786,336	926,925	2,954	3,013

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.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

30. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total cash and bank balances	1,095,341	1,904,633	412	5,041
Less: Time deposits pledged for banking facilities *(note 34)*	–	(10,000)	–	–
	1,095,341	1,894,633	412	5,041

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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. 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$108,388,323 (2006: HK$62,056,000) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.72% (2006: 0.72%) per annum, being the savings 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 45 to the financial statements.

Included also in the Group's cash and bank balances as at 31 December 2006 was a balance of HK$50,963,000 held in an escrow bank account which was designated to finance the termination costs in respect of the employees of the EU Group in France.

31. TRADE PAYABLES

	Note	Group 2007 HK$'000	Group 2006 HK$'000
Due to third parties		3,732,873	3,810,491
Due to related parties:			
Companies controlled by TCL Corporation	28	278,672	225,066
The Thomson Group*	28	–	58,391
Jointly-controlled entities	28	125,204	144,615
		403,876	428,072
		4,136,749	4,238,563

* Thomson ceased to be a related party of the Group on 20 March 2007 and all balances with the Thomson Group as at 31 December 2007 were classified as balances due to third parties.

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

	Group 2007 HK$'000	Group 2006 HK$'000
Current to 90 days	3,970,131	4,176,852
91 to 180 days	91,154	35,744
181 to 365 days	48,477	25,967
Over 365 days	26,987	–
	4,136,749	4,238,563

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

32. OTHER PAYABLES AND ACCRUALS

	Notes	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Other payables	(a)	724,003	644,176	1,611	3,430
Accruals		701,653	1,398,418	5,732	13,903
Due to T.C.L. Industries	(b)	58,245	36,040	37,122	36,040
Due to companies controlled by TCL Corporation	28	–	20,901	1,089	2,031
		1,483,901	2,099,535	45,554	55,404

Notes:

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

(b) The amount due to T.C.L. Industries is unsecured, interest-free and repayable on demand, except for a balance of HK$34,920,900 (2006: HK$34,991,000) which bears interest at 3.084% per annum, being the six-month LIBOR on the inception date of the advances.

33. PROVISIONS

Group

	Restructuring costs	Warranties	Total
	HK$'000	*HK$'000*	*HK$'000*
At 31 December 2006 and 1 January 2007	456,877	348,451	805,328
Arising during the year	33,450	381,634	415,084
Utilised during the year	(384,250)	(332,380)	(716,630)
Reversal of unutilised amounts	–	(72,868)	(72,868)
Deconsolidation of subsidiaries *(note 40(d))*	(118,907)	–	(118,907)
Exchange realignment	12,830	25,077	37,907
At 31 December 2007	–	349,914	349,914

Restructuring costs

In prior 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.

34. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank overdrafts – secured	–	–	–	WIBOR+1.0	2007	53,048
Bank loans – secured	–	–	–	WIBOR+1.0	2007	6,475
Bank loans – unsecured	–	–	–	HIBOR/LIBOR/ EURIBOR +(0.6 to 0.8)	On demand	1,114,831
Bank loans – unsecured	5.6 to 9.0	2008	226,300	4.3 to 7.1	2007	412,159
Advances from banks as consideration for Factored Receivables	LIBOR+(0.4 to 0.5)	2008	610,306	LIBOR +(0.3 to 0.5)	2007	764,384
Trust receipt loans – secured	–	–	–	SIBOR+1.0	2007	6,785
Trust receipt loans – unsecured	LIBOR+0.7	2008	76,919	LIBOR +(0.7 to 1.0)	2007	79,327
Loan from TCL Finance	–	–	–	5.3	2007	187,027
Other loan	–	–	–	3.0	On demand	36,546
			913,525			2,660,582
Non-current						
Loans from TCL Finance	HIBOR+2.0 or 6.41	2009	131,041	–	–	–
			1,044,566			2,660,582

Company

	2007			2006		
	Contractual interest rate (%)	Maturity	HK$'000	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	–	–	–	HIBOR/LIBOR/ EURIBOR +(0.6 to 0.8)	On demand	1,114,831
Other loan	–	–	–	3.0	On demand	36,546
			–			1,151,377

	Group 2007 *HK$'000*	Group 2006 *HK$'000*	Company 2007 *HK$'000*	Company 2006 *HK$'000*
Analysed into:				
Bank loans and overdrafts repayable within one year or on demand	913,525	2,437,009	–	1,114,831
Other borrowings repayable:				
Within one year	–	223,573	–	36,546
In the second year	131,041	–	–	–
	131,041	223,573	–	36,546
	1,044,566	2,660,582	–	1,151,377

Notes:

(a) At 31 December 2006, the Group's overdraft facilities amounted to HK$53,048,000, all of them had been utilised as at the balance sheet date, were secured by the pledge of certain of the Group's inventories amounted to HK$53,292,000.

(b) At 31 December 2006, 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 amounted to HK$10,000,000 and HK$92,834,000, respectively.

(c) As at 31 December 2007, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(d) Except for the unsecured bank loans with an aggregate carrying amount of HK$226,300,000 (2006: HK$412,159,000), part of the loans from TCL Finance of HK$32,041,000 (2006: HK$187,027,000) and the other loan of HK$36,546,000 as at 31 December 2006, all other borrowings of the Group bear interest at floating rates.

In addition, TCL Corporation has guaranteed certain of the Group's bank loans up to HK$296,979,000 (2006: HK$315,657,000) as at the balance sheet date.

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
United States dollars	579,652	1,198,656	–	629,840
Euro	–	426,167	–	426,167

The carrying amounts and the fair values of the Group's and the Company's non-current borrowings are as follows:

	Group			
	Carrying amounts		Fair values	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans from TCL Finance	131,041	–	130,520	–
Liability component of convertible bonds *(note 35)*	506,698	–	1,248,889	–
	637,739	–	1,379,409	–

	Company			
	Carrying amounts		Fair values	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Liability component of convertible bonds *(note 35)*	506,698	–	1,248,889	–

The fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for similar convertible bonds. The fair value of the loans from TCL Finance has been calculated by discounting the expected future cash flows at prevailing interest rates.

35. CONVERTIBLE BONDS

On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), in relation to the issue of secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). The Bonds were issued and completion of the Purchase Agreement took place on 12 July 2007.

The principal terms of the Bonds are summarised below:

(a) The obligations of the Company under the Bonds are secured by the pledge of the shares of certain wholly-owned subsidiaries of the Company. Further details of the shares pledged as security for the Bonds are set out in note 21 to the financial statements.

(b) The Bonds bear interest at the rate of 4.5% per annum of the principal amount of the Bonds. Interest is payable quarterly in arrears commencing on 30 September 2007.

(c) The Bonds are convertible at the option (the "Conversion Option") of the bondholders into fully paid ordinary shares of the Company at any time on or after 23 August 2007 and up to the close of business on 12 July 2012 at an initial conversion price of HK$0.40 (the "Initial Conversion Price") per share, subject to adjustments, including an initial price reset and three annual price resets, as provided under the terms and conditions of the Bonds.

(d) At any time when the delivery of ordinary shares of the Company deliverable upon conversion of the Bonds is required, the Company shall have the option to pay the relevant bondholders in cash in full or in part in order to satisfy such conversion right.

(e) On or at any time after 12 July 2009 and prior to 12 July 2012, the Company may redeem the Bonds at a redemption price equal to the aggregate of (i) the issue price of the Bonds; (ii) a premium of 37.5% of the principal amount accrued up to the redemption date; and (iii) accrued interest. The redemption can be undertaken on all of the bonds only.

(f) On the maturity date, i.e., 12 July 2012, the Bonds will be redeemed by the Company at 137.5% of the principal amount.

The Initial Conversion Price of HK$0.40 per share was adjusted to HK$0.65 per share with effect from 16 August 2007 in accordance with the terms and conditions of the Bonds.

The proceeds from the issue of the Bonds on 12 July 2007 of US$140 million (equivalent to approximately HK$1,095 million) were split into the liability and the derivative components. On issuance of the Bonds, the fair value of the derivative component, i.e., the Conversion Option, is determined using an option pricing model and this amount is carried as a derivative component of the Bonds until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component of the Bonds, net of transaction costs, and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The fair value of the derivative component is remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement.

The fair values of the derivative component at the issuance date and at 31 December 2007 are determined based on the valuations performed by BMI Appraisals Limited, independent professionally qualified valuer, using the applicable option pricing model. Changes in fair value of the derivative component between the issuance date and the balance sheet date is recognised in the income statement.

The net proceeds received from the issue of the Bonds that have been split into the derivative and the liability components are analysed as follows:

	2007 *HK$'000*
Nominal value of convertible bonds issued during the year (US$140 million)	1,095,346
Transaction costs allocated to the liability component	(15,079)
Derivative component at the issuance date	(617,742)
Liability component at the issuance date	462,525
Interest expense *(note 8)*	68,456
Interest paid	(23,030)
Foreign exchange differences	(1,253)
Liability component at 31 December 2007	506,698
Derivative component at the issuance date	617,742
Fair value adjustment	(241,417)
Foreign exchange differences	(1,811)
Derivative component at 31 December 2007	374,514

36. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	Depreciation allowance in excess of related depreciation HK$'000
At 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 and 1 January 2007		21,908
Deconsolidation of subsidiaries	40(d)	(764)
Deferred tax credited to the income statement during the year	12	(7,549)
Exchange realignment		177
Gross deferred tax liabilities at 31 December 2007		13,772

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 2006		7,300	11,590	8,050	750	27,690
Deconsolidation of a subsidiary	40(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 and 1 January 2007		9,300	8,499	–	2,879	20,678
Deferred tax credited/(charged) to the income statement during the year	12	1,604	(5,461)	–	(486)	(4,343)
Exchange realignment		–	320	–	197	517
Gross deferred tax assets at 31 December 2007		10,904	3,358	–	2,590	16,852

The Group has tax losses of HK$1,559,222,000 (2006: HK$3,739,284,000) 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 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates.

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

37. 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.

	2007	**2006**
	HK$'000	*HK$'000*
Net benefit expense		
Current service cost	5,642	33,399
Interest cost on benefit obligation	1,326	782
Net cumulative actuarial loss/(gain) recognised in the income statement	183	(6,111)
Net benefit expense	7,151	28,070
Benefit liabilities		
Benefit obligation	15,564	15,280
Unrecognised net actuarial losses	1,311	2,891
Benefit liabilities	16,875	18,171

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

	2007	**2006**
At 1 January	18,171	165,615
Deconsolidation of a subsidiary *(note 40(d))*	–	(87,161)
Benefit expense *(note 9)*	7,151	28,070
Contributions	(9,024)	(30,478)
Curtailments	–	(68,089)
Exchange realignment	577	10,214
At 31 December	16,875	18,171

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

	2007	**2006**
	%	%
Discount rate	4.5 – 5.25	4.5 – 5.25
Future salary increases	4.0 – 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

38. SHARE CAPITAL

Shares

	Company 2007 HK$'000	Company 2006 HK$'000
Authorised: 22,000,000,000 (2006: 8,000,000,000) shares of HK$0.10 each	2,200,000	800,000
Issued and fully paid: 5,837,715,590 (2006: 3,902,951,727) shares of HK$0.10 each	583,772	390,295

During the year, the movements in share capital were as follows:

(a) Pursuant to the resolution passed on 21 June 2007, the authorised share capital of the Company was increased from HK$800,000,000 to HK$2,200,000,000 by the creation of 14,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company.

(b) A rights issue (the "Rights Issue") of one rights share for every two existing shares held by members on the register of members of the Company on 21 June 2007 was made, at an issue price of HK$0.40 per rights share, resulting in the issue of 1,951,475,863 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$780,591,000.

(c) During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate cost paid HK$'000	Transaction costs HK$'000	Total consideration HK$'000
December 2007	16,712,000	0.455	0.43	7,423	58	7,481

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

A summary of the movements in the Company's issued share capital and share premium account during the year are as follows:

	Notes	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007		3,902,951,727	390,295	1,560,215	1,950,510
Rights Issue	(b)	1,951,475,863	195,148	585,443	780,591
Shares repurchased	(c)	(16,712,000)	(1,671)	(5,810)	(7,481)
		5,837,715,590	583,772	2,139,848	2,723,620
Share issuance expenses		–	–	(7,521)	(7,521)
At 31 December 2007		5,837,715,590	583,772	2,132,327	2,716,099

Share options

On 11 November 2006, the share option scheme adopted by the Company on 12 May 2003 (the "Old Scheme") was expired and a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company, subject to adjustments, on 15 February 2007. 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 ten 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).

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 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 ten 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 highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of 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 offer; and (iii) the nominal value of the Company's shares.

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

	2007		2006	
	Weighted average exercise price HK$ per share	**Number of options '000**	**Weighted average exercise price HK$ per share**	**Number of options '000**
At 1 January	1.4	135,420	1.529	183,343
Adjustment arising from the Rights Issue	1.167	27,014	–	–
Granted during the year	0.630	242,624	–	–
Lapsed during the year	0.985	(34,518)	1.4	(17,500)
Expired during the year	–	–	2.177	(30,423)
At 31 December	0.832	370,540	1.4	135,420

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
139,638	1.167	Note 1
230,902	0.63	Note 2
370,540		

2006

Number of options '000	Exercise price* HK$ per share	Exercise period
135,420	1.4	Note 1

* The exercise price of the share options is subject to adjustment in case of rights on bonus issues, or other similar changes in the Company's share capital.

Note 1: 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.

Note 2: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

The fair value of the share options granted in 2007 was HK$64,764,000 (approximately HK$0.267 each). The fair value of equity-settled share options granted in current 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 2007.

Dividend yield (%)	Nil
Expected volatility (%)	50.00 per annum
Risk-free interest rate (%)	4.52 per annum
Expected life of options (year)	5.00

The expected life of the options is based on the historical data over the past five 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.

Restricted Share Award Scheme

Subsequent to the balance sheet date, on 6 February 2008 (the "Adoption Date"), the board of directors of the Company (the "Board") approved the Restricted Share Award Scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") maybe awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of Awarded Shares awarded to a Selected Employee under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such number of shares awarded as specified by the Board and shall hold such shares until they are vested in accordance with the rules of the Award Scheme.

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

Moreover, a proposal will be put to the shareholders allowing the Board to implement the Award Scheme to its full extent (i.e, to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Employee under the scheme.

At the date of approval of these financial statements, no Awarded Shares was awarded to any Selected Employees under the Award Scheme.

39. RESERVES

Group

	Attributable to equity holders of the parent								
	Share premium account	Share option reserve	Capital reserve^	Reserve funds*	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 40(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 and 1 January 2007	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	1,210,871	88,876	1,299,747
Exchange realignment	–	–	–	–	34,574	–	34,574	6,805	41,379
Profit/(loss) for the year	–	–	–	–	–	(262,016)	(262,016)	8,837	(253,179)
Issue of shares	585,443	–	–	–	–	–	585,443	–	585,443
Share issuance expenses	(7,521)	–	–	–	–	–	(7,521)	–	(7,521)
Shares repurchased	(5,810)	–	–	–	–	–	(5,810)	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	–	–	19,743	–	19,743
Share options lapsed during the year	–	(7,859)	–	–	–	7,859	–	–	–
Transfer from retained profits	–	–	–	36,102	–	(36,102)	–	–	–
At 31 December 2007	2,132,327	57,278	59,099	704,364	185,709	(1,563,493)	1,575,284	104,518	1,679,802

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

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 2006	1,560,215	43,475	738,936	1,358,055	3,700,681
Equity-settled share option arrangements	–	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 and 1 January 2007	1,560,215	45,394	738,936	(1,321,664)	1,022,881
Issue of shares	585,443	–	–	–	585,443
Share issuance expenses	(7,521)	–	–	–	(7,521)
Shares repurchased	(5,810)	–	–	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	19,743
Share options lapsed during the year	–	(7,859)	–	7,859	–
Profit for the year	–	–	–	23,884	23,884
At 31 December 2007	2,132,327	57,278	738,936	(1,289,921)	1,638,620

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.

40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of minority interests

For the year ended 31 December 2006

In 2006, 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.

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 TCL Corporation	63,138

(b) **Acquisition of a subsidiary**

On 27 September 2007, the Group acquired a 100% equity interest in Shenzhen Asic Microelectronics Limited ("Asic Microelectronics") owned by TCL Corporation and T.C.L. Industries at a total consideration of RMB25,000,000 (equivalent to HK$25,283,000). Asic Microelectronics principally engage in the design and development of various integrated circuits and the provision of technical supports related to integrated circuits. This acquisition was completed on 30 September 2007 and the consideration was settled as to HK$20,026,000 in cash and the remaining amount of HK$5,257,000 has not been settled as at 31 December 2007.

The fair values of the identifiable assets and liabilities of Asic Microelectronics as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition *HK$'000*	Carrying amount *HK$'000*
Net assets acquired:			
Property, plant and equipment	17	556	670
Other intangible assets	20	14,998	–
Inventories		5,576	5,576
Trade receivables		5,828	5,828
Other receivables		900	900
Trade payables		(1,151)	(1,151)
Other payables and accruals		(443)	(443)
		26,264	11,380
Excess over the cost of a business combination		(981)	
		25,283	
Satisfied by:			
Cash		20,026	
Due to T.C.L. Industries		5,257	
		25,283	

The results of the subsidiary acquired during the year had no significant impact on the Group's consolidated turnover or loss for the year ended 31 December 2007.

There would have been no significant differences to the Group's consolidated loss for the year had the acquisition taken place at the beginning of the year.

(c) Disposal of subsidiaries

	Notes	2006 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 receivables		399,947
Bills receivable		12,384
Other receivables		148,851
Tax recoverable		1,219
Cash and bank balances		16,159
Trade payables		(82,664)
Bills payable		(193,384)
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
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

(d) Deconsolidation of subsidiaries

(i) For the year ended 31 December 2007

On 24 May 2007, TTE Europe filed a declaration of insolvency to the French court and the French court appointed the Liquidator to take over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person being responsible for winding-up the EU Group by liquidating its assets and making payment to its creditors. The financial statements of the EU Group were deconsolidated from the Group's consolidated financial statements since 29 May 2007 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 the EU Group since that date.

	Notes	2007 HK$'000
Net liabilities of EU Group:		
Property, plant and equipment	17	38
Available-for-sale investments		376
Other receivables		59,844
Tax recoverable		241
Cash and bank balances		228,338
Trade payables		(110,425)
Tax payable		(41)
Other payables and accruals		(60,050)
Provisions	33	(118,907)
Deferred tax liabilities	36	(764)
		(1,350)
Gain on deconsolidation of subsidiaries	7	1,350
		–
Net outflow of cash and bank balances in respect of the deconsolidation of subsidiaries		(228,338)

(ii) *For the year ended 31 December 2006*

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 filed by TTE Germany. Formal insolvency proceedings were opened under the court order issued by the German court on 1 February 2007. 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 date.

	Notes	2006 HK$'000
Net liabilities of TTE Germany:		
Property, plant and equipment	17	5,156
Deferred tax assets	36	7,671
Other receivables		8,975
Tax recoverable		447
Cash and bank balances		1,524
Due from Group companies, net		69,984
Trade payables		(167)
Other payables and accruals		(13,903)
Provisions		(4,652)
Pensions and other post-employment benefits	37	(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)

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2007, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	24	96
In the second to fifth years, inclusive	–	24
	24	120

(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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within one year	60,015	33,301
In the second to fifth years, inclusive	45,017	73,689
After five years	5,836	16,449
	110,868	123,439

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	**2006**
	HK$'000	*HK$'000*
Contracted, but not provided for	1,083	198
Authorised, but not contracted for	1,761	2,529
	2,844	2,727

43. CONTINGENT LIABILITIES

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

	Group		Company	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks in connection with banking facilities granted to subsidiaries	–	–	2,655,170	2,966,657
Guarantees given to suppliers in connection with the payment of purchases by subsidiaries	–	–	388,951	213,835
Guarantees given in lieu of utility and rental deposits	1,425	1,543	–	–
	1,425	1,543	3,044,121	3,180,492

As at 31 December 2007, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$468 million (2006: HK$885 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were utilised to the extent of approximately HK$84 million (2006: HK$13 million).

(b) In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe against the Company, TTE Europe and TTE Belgium S.A. ("TTE Belgium"), an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro17 million (equivalent to approximately HK$196 million).

The directors, based on the advice from the Group's legal counsels, believe that the Company and TTE Belgium have a valid defence against the Claims and, accordingly, have not provided for any liability arising from the Claims.

44. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, and of the Bonds, which are secured by the assets of the Group, are included in notes 17, 26 and 34 and notes 21 and 35, respectively, to the financial statements.

45. 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	2007 HK$'000	2006 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	665,865	1,030,009
Sales of finished goods	(ii)	77,163	74,748
Purchases of finished goods	(iii)	712,017	1,108,823
TCL Corporation:			
Interest expense	(iv)	8,489	18,869
T.C.L. Industries:			
Interest expense	(v)	2,751	1,183
An associate:			
Interest income	(vi)	250	4
Interest expense	(vii)	8,615	591
Other financial services fee	(viii)	223	–
Companies controlled by TCL Corporation:			
Sales of finished goods	(ii)	3,653	808
Purchases of raw materials	(iii)	1,096,897	806,025
Purchases of finished goods	(iii)	11,721	53,705
Subcontracting fee expense	(ix)	11,810	12,554
Interest income	(x)	217	3,387
Rental, maintenance fees and facilities usage fees	(xi)	2,503	4,033
Rental expense	(xii)	9,630	2,840
Interest expense	(xiii)	–	985
Reimbursement of brand advertising costs	(xiv)	67,821	59,106
Transportation fee expense	(xv)	14,553	–
Calling service fee expense	(xvi)	14,511	–
Sales of mobile phones	(xvii)	25,081	–
Purchases of materials for manufacturing of mobile phones	(xviii)	40,142	–
Thomson Group*:			
Sales of finished goods	(ii)	376	80,063
Purchases of raw materials	(iii)	1,912	97,334
Shared service fee expense	(xix)	36,690	270,213
Interest expense	(xx)	–	17,432
Patent royalty expense	(xxi)	–	15,118
Reimbursement of brand advertising costs	(xxii)	–	40,357
Trademark royalty fee	(xxiii)	2,675	43,631
After-sales and related services fee expense	(xix)	18,051	49,476
Laboratory service fee expense	(xix)	–	3,255
Subcontracting fee expense	(xxiv)	317	162,788
Styling service fee income	(xxv)	–	2,873
Logistics management service fee income	(xxv)	–	1,963

* Thomson ceased to be a related party of the Group on 20 March 2007 and transactions with the Thomson Group after 20 March 2007 were not included as related party transactions.

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 prices 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 5.49% per annum, being the loan interest rate offered by the Export-Import Bank of China (2006: 4.32% per annum, being the loan interest rate offered by the Export-Import 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 savings rate offered by the People's Bank of China.

(vii) The interest on three loans was charged at a rate of 5% discount on the 6-month loan interest rate offered by the People's Bank of China, 6.41% per annum and 2% premium on the 3-month HIBOR on the inception date of the loans respectively (2006: 5% discount on the 6-month loan interest rate offered by the People's Bank of China).

(viii) The other financial services fee was determined with reference to the rates of other similar services for comparable transactions.

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

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

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

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

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

(xiv) The brand advertising costs represent advertising costs incurred by TCL Corporation 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.

(xv) The transportation fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The calling service fee was calculated based on the actual cost structure in connection with the provision of the calling service.

(xvii) The sales of mobile phones were made based on the cost of materials plus a value added rate with reference to other similar services for comparable transactions.

(xviii) The purchases of materials for manufacturing of mobile phones were made at cost.

(xix) The shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(xx) The interest in 2006 was charged at a rate of 3.78% to 6.1% per annum, being the cost of fund of Thomson.

(xxi) The patent royalty in 2006 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.

(xxii) The brand advertising costs in 2006 represented 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.

(xxiii) 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.

(xxiv) 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.

(xxv) The styling service fee and logistics management service fee in 2006 were charged by the Group at cost.

(b) Other transactions with related parties:

(i) On 15 May 2007, the Company entered into the Underwriting Agreement with T.C.L. Industries and pursuant to the Underwriting Agreement, any rights shares offered under the Rights Issue not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries. The Rights Issue was completed on 11 July 2007 and since all rights shares were accepted by the shareholders of the Company, T.C.L. Industries was not required to take up any unsubscribed rights share and its obligations under the Underwriting Agreement was therefore discharged.

Further details of the Underwriting Agreement were set out in the Company's announcements dated 15 May 2007 and 12 July 2007.

(ii) On 27 September 2007, TCL King Electrical Appliances (Huizhou) Company Limited, a wholly-owned subsidiary of the Company entered into two equity transfer agreements with TCL Corporation and T.C.L. Industries to acquire 75% and 25% equity interests, respectively, in Asic Microelectronics at a total consideration of RMB25 million (equivalent to HK$25,283,000). Asic Microelectronics principally engages in the design and development of various integrated circuits and the provision of technical supports related to integrated circuits. This acquisition was completed on 30 September 2007 and Asic Microelectronics became a wholly-owned subsidiary of the Group.

Further details of this acquisition were set out in the Company's announcements dated 27 September 2007.

(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 note 45(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, 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 interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors 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.

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 a floating interest rates and the derivative component of convertible bonds.

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.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings and the derivative component of the convertible bonds). There is no material impact on other components of the Group's equity.

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**
		HK$'000
2007		
Hong Kong dollar	(25)	(124)
United States dollar	(25)	(404)
Renminbi	(25)	(404)
Thai Baht	(25)	(17)
Hong Kong dollar	25	124
United States dollar	25	404
Renminbi	25	404
Thai Baht	25	17

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**
		HK$'000
2006		
Hong Kong dollar	(25)	(57)
United States dollar	(25)	(1,120)
Renminbi	(25)	(943)
Thai Baht	(25)	(19)
Euro	(25)	(694)
Polish Zloty	(25)	(149)
Hong Kong dollar	25	57
United States dollar	25	1,120
Renminbi	25	943
Thai Baht	25	19
Euro	25	694
Polish Zloty	25	149

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 currencies. In addition, certain bank loans and the bonds are denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incur, so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates	Increase/ (decrease) in loss before tax
	%	*HK$'000*
2007		
If Hong Kong dollar weakens against United States dollar	5	51,045
If Hong Kong dollar weakens against Euro	5	(3,996)
If Hong Kong dollar strengthens against United States dollar	(5)	(51,045)
If Hong Kong dollar strengthens against Euro	(5)	3,996

	Increase/ (decrease) in exchange rates	Increase/ (decrease) in loss before tax
	%	*HK$'000*
2006		
If Hong Kong dollar weakens against United States dollar	5	19,824
If Hong Kong dollar weakens against Euro	5	20,960
If Hong Kong dollar strengthens against United States dollar	(5)	(19,824)
If Hong Kong dollar strengthens against Euro	(5)	(20,960)

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 other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 27 and 29, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, and other interest-bearing borrowings.

The maturity profile of the Groups financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	2007			
	Within 1 year or on demand *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years** *HK$'000*	**Total** *HK$'000*
Convertible bonds *(note 35)*	–	–	1,095,346	1,095,346
Interest-bearing bank and other borrowings	918,186	139,572	–	1,057,758
Trade payables	4,136,749	–	–	4,136,749
Bills payable	272,988	–	–	272,988
Other payables *(note 32)*	724,003	–	–	724,003
Due to T.C.L. Industries	59,322	–	–	59,322
Due to TCL Corporation	228,352	–	–	228,352
	6,339,600	139,572	1,095,346	7,574,518

	2006			
	Within 1 year or on demand *HK$'000*	**More than 1 year but less than 2 years** *HK$'000*	**More than 2 years** *HK$'000*	**Total** *HK$'000*
Interest-bearing bank and other borrowings	2,730,697	–	–	2,730,697
Trade payables	4,238,563	–	–	4,238,563
Bills payable	403,752	–	–	403,752
Other payables *(note 32)*	644,176	–	–	644,176
Due to T.C.L. Industries	37,119	–	–	37,119
Due to companies controlled by TCL Corporation *(note 32)*	20,901	–	–	20,901
Due to TCL Corporation	360,170	–	–	360,170
	8,435,378	–	–	8,435,378

Company

	2007			
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Convertible bonds *(note 35)*	–	–	1,095,346	1,095,346
Other payables *(note 32)*	1,611	–	–	1,611
Due to T.C.L. Industries	38,199	–	–	38,199
Due to companies controlled by TCL Corporation *(note 32)*	1,089	–	–	1,089
	40,899	–	1,095,346	1,136,245

	2006			
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing bank and other borrowings	1,183,666	–	–	1,183,666
Other payables *(note 32)*	3,430	–	–	3,430
Due to T.C.L. Industries	37,119	–	–	37,119
Due to companies controlled by TCL Corporation *(note 32)*	2,031	–	–	2,031
	1,226,246	–	–	1,226,246

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the values of Company's own equity instruments underlie the fair values of derivatives. As at the balance sheet date, the Group was exposed to this risk through the conversion rights attached to the Bonds (note 35) issued by the Company.

As at 31 December 2007, the carrying value of the Conversion Option was HK$374,514,000 (2006: Nil) and if the market price of the Company's own share at that date had been 5% lower, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$29,391,000 lower; and if the market price of the Company's own share at that date had been 5% higher, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$32,792,000 higher.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the two years ended 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of interest-bearing bank and other borrowings, interest-bearing amount due to TCL Corporation and the Bonds, less cash and cash equivalents (including pledged deposits). Total capital refers to equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007	**2006**
	HK$'000	*HK$'000*
Interest-bearing bank and other borrowings *(note 34)*	1,044,566	2,660,582
Liability component of convertible bonds	506,698	–
Derivative component of convertible bonds	374,514	–
Due to TCL Corporation *(note 28)*	145,591	281,747
Less: Cash and bank balances *(note 30)*	(1,095,341)	(1,904,633)
Net debt	976,028	1,037,696
Equity attributable to equity holders of the parent	2,159,056	1,601,166
Gearing ratio	45%	65%

47. POST BALANCE SHEET EVENTS

(i) On 16 January 2008 and 30 January 2008, the Company repurchased 1,272,000 and 100,000 shares, respectively, of its own shares on the Stock Exchange for a total consideration of HK$613,900.

(ii) On 6 February 2008, the Board approved the Award Scheme under which shares of the Company maybe awarded to the Selected Employees in accordance with the provisions of the Award Scheme.

Further details of the Award Scheme are set out in note 38 to the financial statements and the Company's announcement dated 6 February 2008.

48. COMPARATIVE AMOUNTS

As further explained in note 3.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform with the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2008.

3. UNAUDITED CONSOLIDATED QUARTERLY RESULTS OF THE GROUP FOR THE THREE MONTNHS ENDED 31 MARCH 2008

Set out below is a summary of the condensed consolidated financial statements of the Group for the three months ended 31 March 2008 and notes thereto as extracted from the quarterly results announcement of the Company for the three month ended 31 March 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended 31 March	
		2008	**2007**
		(unaudited)	**(unaudited)**
	Notes	*HK$'000*	*HK$'000*
TURNOVER	2	5,500,346	5,019,026
Cost of sales		(4,484,895)	(4,103,705)
Gross profit		1,015,451	915,321
Other revenue and gains		50,113	32,584
Selling and distribution costs		(744,140)	(683,459)
Administrative expenses		(172,656)	(218,605)
Research and development costs		(51,512)	(15,209)
Other operating expenses		(213)	(23,471)
		97,043	7,161
Finance costs excluding interest on convertible bonds		(27,933)	(43,256)
Share of profits and losses of:			
Jointly-controlled entities		(5,530)	(1,368)
Associates		82	131
		63,662	(37,332)
Fair value gain on the derivative component of convertible bonds		155,336	–
Interest on convertible bonds		(39,174)	–
PROFIT/(LOSS) BEFORE TAX		179,824	(37,332)
Tax	3	(9,567)	(28,694)
PROFIT/(LOSS) FOR THE PERIOD		170,257	(66,026)
ATTRIBUTABLE TO:			
Equity holders of the parent		167,600	(67,280)
Minority interests		2,657	1,254
		170,257	(66,026)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	5		
Basic		HK2.87 cents	HK(1.51) cents
Diluted		HK0.74 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 March 2008 (unaudited) HK$'000	31 December 2007 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,679,992	1,667,073
Prepaid land lease payments		77,834	75,539
Goodwill		119,638	119,638
Other intangible assets		40,967	42,532
Interests in jointly-controlled entities		113,886	115,571
Interests in associates		81,739	78,595
Available-for-sale investments		1,008	1,008
Prepaid royalty		171,869	189,235
Deferred tax assets		17,450	16,852
Total non-current assets		2,304,383	2,306,043
CURRENT ASSETS			
Inventories		3,265,453	3,229,362
Trade receivables		2,423,148	2,734,187
Bills receivable		339,432	613,408
Other receivables		856,249	786,336
Tax recoverable		24,524	15,196
Cash and bank balances		817,599	1,095,341
Total current assets		7,726,405	8,473,830
CURRENT LIABILITIES			
Trade payables		3,558,383	4,136,749
Bills payable		275,871	272,988
Tax payable		114,197	95,963
Other payables		1,379,323	1,483,901
Provisions		341,657	349,914
Interest-bearing bank and other borrowings	6	723,870	913,525
Due to TCL Corporation	7	224,997	220,359
Total current liabilities		6,618,298	7,473,399
NET CURRENT ASSETS		1,108,107	1,000,431
TOTAL ASSETS LESS CURRENT LIABILITIES		3,412,490	3,306,474

	Notes	31 March 2008 (unaudited) HK$'000	31 December 2007 (audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,412,490	3,306,474
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	6	133,676	131,041
Liability component of convertible bonds	8	532,237	506,698
Derivative component of convertible bonds	8	218,374	374,514
Deferred tax liabilities		13,196	13,772
Pensions and other post-employment benefits		17,591	16,875
Total non-current liabilities		915,074	1,042,900
Net assets		2,497,416	2,263,574
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		583,524	583,772
Reserves		1,802,630	1,575,284
		2,386,154	2,159,056
Minority interests		111,262	104,518
Total equity		2,497,416	2,263,574

Notes:

1. **BASIS OF PREPARATION**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards 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 the derivative financial instruments, 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 2007.

2. **SEGMENT INFORMATION**

The following table presents revenue and profit/(loss) information for the Group's business segments for the three months ended 31 March 2008 and 2007.

	Segment Revenue		**Segment Results**	
	2008	**2007**	**2008**	**2007**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Television	4,799,824	4,445,734	102,375	40,118
Home Networking	526,241	473,143	12,698	7,822
Others	174,281	100,149	(1,655)	4,231
	5,500,346	5,019,026	113,418	52,171
Bank interest income			2,530	5,550
Corporate expenses			(18,905)	(50,560)
Finance costs excluding interest on convertible bonds			(27,933)	(43,256)
Share of profits and losses of:				
Jointly-controlled entities			(5,530)	(1,368)
Associates			82	131
			63,662	(37,332)
Fair value gain on the derivative component of convertible bonds			155,336	–
Interest on convertible bonds			(39,174)	–
Profit/(loss) before tax			179,824	(37,332)
Tax			(9,567)	(28,694)
Profit/(loss) for the period			170,257	(66,026)

3. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 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	
	2008	**2007**
	(unaudited)	**(unaudited)**
	HK$'000	*HK$'000*
Current – Hong Kong	1,878	2,459
Current – Elsewhere	8,648	20,234
Deferred	(959)	6,001
Total tax charge for the period	9,567	28,694

4. DIVIDEND

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

5. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	Three months ended 31 March	
	2008	**2007**
	(unaudited)	**(unaudited)**
	HK$'000	*HK$'000*
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	167,600	(67,280)
Interest on convertible bonds	39,174	–
Less: Fair value gain on the derivative component of convertible bonds	(155,336)	–
Profit/(loss) for the purpose of diluted earnings/(loss) per share	51,438	(67,280)

	Number of shares Three months ended 31 March 2008	2007 (restated)
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings/(loss) per share calculation	5,836,442,777	4,460,516,259*
Effect of dilution – weighted average number of ordinary shares: Deemed conversion of all convertible bonds	1,090,494,462	–
Weighted average number of ordinary shares in issue during the period used in diluted earnings/(loss) per share calculation	6,926,937,239	4,460,516,259*

* Restated to take into account the retrospective adjustment to the number of shares outstanding before the rights issue completed on 12 July 2007 to reflect the bonus element inherent in the rights issue.

The share options outstanding during the period ended 31 March 2008 and 2007 had an anti-dilutive effect on the basic earnings/(loss) per share and were therefore, ignored in the calculation of diluted earnings/(loss) per share.

Diluted loss per share amount for the period ended 31 March 2007 has not been disclosed, as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

6. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 March 2008 (unaudited) *HK$'000*	31 December 2007 (audited) *HK$'000*
Current		
Bank loans – unsecured	124,954	226,300
Advances from banks as consideration for factored receivables	533,586	610,306
Trust receipt loans- unsecured	65,330	76,919
	723,870	913,525
Non-current		
Loan from TCL Finance Co., Ltd.	133,676	131,041
	857,546	1,044,566

Note: As at 31 March 2008, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

7. DUE TO TCL CORPORATION

T.C.L. Industries Holdings (H.K.) Ltd. ("T.C.L. Industries") is the shareholder of the company and TCL Corporation is the holding company of T.C.L. Industries.

8. CONVERTIBLE BONDS

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). The completion of the Purchase Agreement took place and the Bonds were issued on 12 July 2007.

Principal terms of the Bonds:

(i) Bondholders may convert at any time from 23 August 2007 up to the closing of business on 12 July 2012 at the initial conversion price of HK$0.40. As set out in the Company's announcement dated 16 August 2007, the conversion price had been adjusted from the initial conversion price of HK$0.40 per share to HK$0.65 per share with effect from 16 August 2007 (and further annual resets in accordance with the terms of the Bonds) pursuant to the terms and conditions of the Bonds;

(ii) On or at any time after 12 July 2009 and prior to 12 July 2012, 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;

(iii) 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 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; and

(iv) Unless previously redeemed, converted or purchased and cancelled, each Bond shall be redeemed at 137.50% of its principal amount on the fifth anniversary of the issue date.

The Bonds bear interest at the rate of 4.5% per annum on the principal amount outstanding. The interest will be payable by the Company quarterly in arrears. The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding; (2) the interest accrued.

The proceeds from the issue of the Bonds on 12 July 2007 of US$140 million (equivalent to approximately HK$1,095 million) were split into the liability and the derivative components. On issuance of the Bonds, the fair value of the derivative components is determined using an option pricing model and this amount is carried as a derivative component of the Bonds until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component of the Bonds, net of transaction costs, and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The fair value of the derivative component is remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement.

The fair values of the derivative component at 31 March 2008 is determined using the applicable option pricing model. Changes in fair value of the derivative component between the balance sheet dates is recognised in the income statement.

The Company is actively negotiating with bondholders to reach an agreement on a restructuring plan of the early redemption of the Bonds. The controlling shareholder, TCL Corporation, has committed to provide support on the restructuring plan.

4. MATERIAL CHANGE

Save as disclosed below, there are no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practical Date:

(i) on 30 May 2008, the Company entered into (a) the Subscription Agreements with the Subscribers, pursuant to which, the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue the Subscription Shares at the Subscription Price of HK$0.275, being a price equal to 15% discount to the average closing price per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for 10 trading days immediately after the date of the Announcement, for an aggregate amount of HK$1,206,269,010, the aggregate investment amount paid by the Subscribers as deposit for the Subscription; and (b) the Assignment Agreement with TCL Industries, pursuant to which, TCL Industries conditionally agreed to assign the Loan to the Company and the Company conditionally agreed to issue the Consideration Shares at the Subscription Price of HK$0.275, being a price equal to 15% discount to the average closing price per Share as stated in the daily quotation sheets of the Hong Kong Stock Exchange for 10 trading days immediately after the date of the Announcement, for an aggregate amount of HK$117,524,522.3, being the amount of the Loan;

(ii) the Company redeemed the Bonds in full at the Early Redemption Amount in the amount of US$94.7 million (approximately HK$738,205,440) and US$56.2 million (approximately HK$438,090,240) on 6 June 2008 and 20 June 2008, respectively; and

(iii) Resolution No. 2 contained in the Notice of First EGM in relation to the Assignment Agreement and Assignment of Loan was not passed as an ordinary resolution and the completion of the Assignment of Loan will not be taken place and the Loan in the aggregate amount of HK$117,524,522.3 will remain due from TCL Holdings and TCL International, wholly-owned subsidiaries of the Company, to TCL Industries.

5. INDEBTEDNESS

As at the close of business on 31 May 2008, being the latest practicable date for the purpose of ascertaining certain information in relation to this indebtedness statement, the Group had:

(i) outstanding convertible bonds in the amount of approximately HK$787 million;

(ii) unsecured bank loans in the amount of approximately HK$307 million;

(iii) advances from banks as consideration for factored receivables in the amount of approximately HK$648 million;

(iv) unsecured trust receipt loans in the amount of approximately HK$26 million;

(v) a loan from an associate in the amount of approximately HK$135 million; and

(vi) a loan from the TCL Corporation in the amount of approximately HK$146 million.

TCL Corporation provided guarantees in respect of certain bank loans of the Group up to an amount of approximately HK$112 million as at 31 May 2008.

Save as aforesaid and apart from intra-group liabilities and normal account payables arising in the ordinary course of business of the Group, none of the companies comprising the Group had any outstanding mortgage, term loan, charge or debenture, loan capital, bank loan and overdraft, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liability under acceptance (other than normal trade bills) or acceptance credit or any guarantee or other material contingent liability as at the close of business on 31 May 2008.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong 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. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 80 of the articles of association of the Company, a resolution put to the vote of a general meeting of the Shareholders shall be decided on a show of hands unless, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll, a poll is duly demanded by:

(a) the chairman of the meeting; or

(b) at least five Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and entitled to vote at the meeting; or

(c) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all the Shareholders who have the right to vote at the meeting; or

(d) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorized representative shall be deemed to be the same as a demand by a Shareholder.

3. 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 Subscription (assuming all Outstanding Options are exercised on or before the Latest Practicable Date) will be, as follows:

		HK$
Authorized share capital		
22,000,000,000	Shares as at the Latest Practicable Date	2,200,000,000.00
22,000,000,000		2,200,000,000.00
Issued and fully paid share capital		
5,835,241,590	Shares in issue as at the Latest Practicable Date	583,524,159.00
346,162,147	Shares to be issued upon exercise of all Outstanding Options on or before the Latest Practicable Date	34,616,214.70
4,386,432,755	Shares to be issued and allotted by the Company upon completion of the Subscription	438,643,275.50
10,567,836,492		1,056,783,649.20

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 Subscription Shares to be allotted and issued will, when issued and fully paid or credited as fully paid, will rank pari passu in all respects with the existing Shares in issue.

The Company had no outstanding convertible debt securities in issue as at the Latest Practicable Date.

Save as the share repurchases in respect of 1,272,000 Shares, 100,000 Shares and 1,102,000 Shares conducted by the Company on 16 January 2008, 30 January 2008 and 18 March 2008, respectively, there has been no alternation to the authorised and issued share capital of the Company since 31 December 2007, the date on which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date.

(b) Share Options

The following table sets out the details of the Outstanding Options as at the Latest Practicable Date:

Name of Grantee	Number of underlying Shares subject to the Outstanding Options	Date of Grant	Exercise Price (HK$)	Exercise Period
Directors				
Executive Directors				
Li Dongsheng	6,000,000	31 May 2005	1.167	*Note 1*
	17,990,028	4 July 2007	0.630	*Note 2*
Yuan Bing	396,000	31 May 2005	1.167	*Note 1*
	1,820,033	4 July 2007	0.630	*Note 2*
Shi Wanwen	3,120,000	31 May 2005	1.167	*Note 1*
	8,858,955	4 July 2007	0.630	*Note 2*
Wang Kangping	1,680,000	31 May 2005	1.167	*Note 1*
Lu Zhongli	3,000,000	31 May 2005	1.167	*Note 1*
	1,300,033	4 July 2007	0.630	*Note 2*
Non-executive Director				
Albert Thomas da Rosa, Junior	360,000	31 May 2005	1.167	*Note 1*
Independent Non-executive Director				
Tang Guliang	360,000	31 May 2005	1.167	*Note 1*
Other Employees	104,880,000	31 May 2005	1.167	*Note 1*
	196,397,098	4 July 2007	0.630	*Note 2*
	346,162,147			

Notes:

1. 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.

2. One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Save as disclosed above, the Company did not have any outstanding warrant, share option or other securities carrying rights of conversion into or exchange or subscription for Shares as at the Latest Practicable Date.

4. DISCLOSURE OF INTERESTS OF DIRECTORS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Hong Kong 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 Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

(a) Interests in shares of the Company

Directors	Capacity	Number of Shares Held	Approximate percentage of the issued share capital of the Company
Li Dongsheng	Beneficial Owner	111,666,579	1.914%
Leong Yue Wing	Beneficial Owner	1,000,000	0.017%
Wang Kangping	Beneficial Owner	150,000	0.003%

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

Directors	Capacity	Number of underlying Shares Held	Approximate percentage of the issued share capital of the Company
Li Dongsheng	Beneficial Owner	23,990,028	0.411%
Yuan Bing	Beneficial Owner	2,216,033	0.038%
Shi Wanwen	Beneficial Owner	11,978,955	0.205%
Wang Kangping	Beneficial Owner	1,680,000	0.029%
Lu Zhongli	Beneficial Owner	4,300,033	0.074%
Albert Thomas da Rosa, Junior	Beneficial Owner	360,000	0.006%
Tang Guliang	Beneficial Owner	360,000	0.006%

(c) Interests in shares of associated corporations of the Company

Directors	Name of associated corporation	Capacity	Number of Shares Held	Approximate percentage of the issued share capital of the associated corporation
Li Dongsheng	TCL Corporation	Beneficial Owner	97,562,400	3.77%
Li Dongsheng	TCL Communication Technology Holdings Limited	Beneficial Owner	110,000,800	1.54%
Yuan Bing	TCL Communication Technology Holdings Limited	Beneficial Owner	2,116,000	0.03%
Shi Wanwen	TCL Corporation	Beneficial Owner	1,712,599	0.07%
Wang Kangpiing	TCL Communication Technology Holdings Limited	Beneficial Owner	80,000	0.001%

(d) Interest in share options of associated corporations of the Company

Directors	Name of associated corporation	Capacity	Number of Shares Held	Approximate percentage of the issued share capital of the associated corporation
Li Dongsheng	TCL Communication Technology Holdings Limited	Beneficial Owner	26,512,049	0.37%
Yuan Bing	TCL Communication Technology Holdings Limited	Beneficial Owner	4,525,664	0.06%
Shi Wanwen	TCL Communication Technology Holdings Limited	Beneficial Owner	654,546	0.01%

Directors	Name of associated corporation	Capacity	Number of Shares Held	Approximate percentage of the issued share capital of the associated corporation
Wang Kangping	TCL Communication Technology Holdings Limited	Beneficial Owner	3,027,274	0.04%
Lu Zhongli	TCL Communication Technology Holdings Limited	Beneficial Owner	7,748,225	0.11%

Save as disclosed in this paragraph 4, 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 corporation (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 Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

5. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

(a) Interests in 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 Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

(i) Long Position in shares of the Company:

Name of Shareholder	Nature of interest	Number of Shares Held	Approximate percentage of the issued share capital of the Company
TCL Corporation	Interest of controlled corporation	2,304,181,933 (*Note 1*)	39.49%

(ii) Long Position in shares and/or underlying shares of the Company:

Name of Shareholder	Nature of interest	Number of Shares Held	Approximate percentage of the issued share capital of the Company
Deutsche Bank Aktiengesellschaft	Beneficial Owner/ Person having a security interest in shares *(Note 2)*	476,189,921	8.16%

(iii) Short Position in shares of the Company:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares *(Note 2)*	6,988,000	0.12%

Notes:

1. TCL Corporation was deemed to be interested in 2,304,181,933 Shares held by T.C.L. Industries Holdings (H.K.) Ltd., its direct wholly owned subsidiary, for the purpose of the SFO.

2. According to the corporate substantial shareholder notice (Form 2) filed by Deutsche Bank Aktiengesellschaft ("DB") with the Hong Kong Stock Exchange on 24 June 2008, the long position and the short position in 476,189,921 Shares and 6,988,000 Shares respectively, comprises of (i) 469,200,000 Shares being derivative interests; (ii) 469,201,921 Shares being beneficially owned by DB; and (iii) 6,988,000 Shares being security interest held by DB.

Save as disclosed in this paragraph 4(a), 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 Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) **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 shareholders	Approximate percentage of shareholding
Guangzhou Digital Rowa Technology Co., Ltd. (廣州數碼樂華科技有限公司)	Science City Development Public Co., Ltd. (南方科學城發展股份有限公司)	30%
Henan TCL – Melody Electronics Co., Ltd. (河南TCL－美樂電子有限公司)	Henan Ancai Melody Electronic Co., Ltd. (河南安彩集團美樂電子有限責任公司)	47.86%
P.T. TCL Indonesia	Junaide Sungkono	20%
TCL Electronics (Singapore) Pte Ltd.	Dragoncom Shenzhen Investment Ltd. (深圳市浩龍投資有限公司)	15%
TCL King Electrical Appliances (Wuxi) Co., Ltd. (TCL王牌電器(無錫)有限公司)	無錫市電儀資產經營有限公司	30%
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%
Sizzon Pte Ltd.	Junaide Sungkono	20%

Save as disclosed in this paragraph 6(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, 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.

6. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

As of the Latest Practicable Date:

(a) save as disclosed in the section headed "Appendix II – General Information – 4. Disclosure of Interest of Directors" of this circular, neither the Company nor any Director had any shareholding in nor had dealt for value during the Relevant Period (as defined below) in the shares, convertible securities, warrants, options and derivatives of TCL Industries or TCL Corporation;

(b) save as disclosed in the section headed "Appendix II – General Information – 4. Disclosure of Interest of Directors" of this circular and the purchases of Shares by Mr. Leong as disclosed below in this section, no Director had any shareholding in nor had dealt for value during the Relevant Period (as defined below) in the shares, convertible securities, warrants, options and derivatives of the Company;

(c) neither any subsidiary of the Company, any pension fund of the Group, any professional adviser named under the section headed "Appendix II – General Information – 13. Expert and Consent" of this circular nor any adviser (including J.P. Morgan (Asia Pacific) Limited, the financial adviser of the Company) to the Company as specified in class (2) of the definition of an associate under the Hong Kong Takeovers Code (but excluding exempt principal traders) had any shareholding in the Company;

(d) no person had any arrangement of the kind referred to in Note 8 of Rule 22 of the Hong Kong Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of an associate under the Hong Kong Takeovers Code;

(e) no shareholding in the Company was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;

(f) Mr. Li Dongsheng and Mr. Leong Yue Wing, executive Directors and beneficial owners of 111,666,579 Shares and 1,000,000 Shares, respectively, are regarded as parties acting in concert with TCL Industries and are interested in the Subscription and the Whitewash Waiver and will abstain from voting in respect of the Subscription, the Assignment of Loan and the Whitewash Waiver. Mr. Wang Kangping, an executive Director and a beneficial owner of 150,000 Shares, intends to vote in favour of the Subscription, the Assignment of Loan and the Whitewash Waiver in respect of his own beneficial shareholding;

(g) save as Mr. Li Dongsheng and Mr. Leong Yue Wing, beneficial owners of 111,666,579 Shares and 1,000,000 Shares, respectively, neither any Subscriber, any of its directors (in the case of body corporate) nor any person acting in concert with the Subscribers had any shareholding in the Company; and

(h) neither TCL industries nor any parties acting in concert with it has intention to transfer, charge or pledge any of the Subscription Shares and Consideration Shares to any other person.

The share repurchases conducted by the Company and the purchases of Shares by Mr. Leong during the six months prior to the date of the Announcement and including the date of the Announcement (the "Relevant Period") are set out below:

(a) Share Repurchases conducted by the Company

Date of Repurchase	Number of Shares Repurchased	Repurchase Price Highest Price Paid	Repurchase Price Lowest Price Paid	Total Paid
		HK$	*HK$*	*HK$*
13 December 2007	500,000	0.455	0.455	227,500
17 December 2007	3,000,000	0.445	0.435	1,318,460
18 December 2007	500,000	0.435	0.430	217,000
19 December 2007	7,484,000	0.450	0.435	3,317,500
20 December 2007	5,228,000	0.455	0.445	2,342,330
16 January 2008	1,272,000	0.455	0.450	574,900
30 January 2008	100,000	0.390	0.390	39,000
18 March 2008	1,102,000	0.340	0.335	369,540
Total:	19,186,000	–	–	8,406,230

(b) Purchases of Shares by Mr. Leong

Date of Purchase	Number of Shares Purchased	Purchase Price	Total Paid
22 January 2008	500,000	HK$0.405	202,500
30 January 2008	500,000	HK$0.415	207,500
Total:	1,000,000	–	410,000

Save as (i) the share repurchases conducted by the Company as disclosed in the share buyback reports of the Company dated 14 December 2007, 17 December 2007, 18 December 2007, 19 December 2007, 20 December 2007, 16 January 2008, 30 January 2008 and 18 March 2008, respectively; and (ii) the purchases of 500,000 Shares each by Mr. Leong on 22 January 2008 and 30 January 2008, respectively, there are no dealings in the securities of the Company by the Subscribers, the directors of TCL Industries and their respective concert parties during the Relevant Period.

7. OTHER ARRANGEMENTS

As at the Latest Practicable Date,

(a) no persons had irrevocably committed themselves to vote for or against the resolution to be proposed at the EGM to approve the Subscription, the Assignment of Loan and the Whitewash Waiver;

(b) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code with TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu or the Company; or with any person who is acting in concert with TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu or the Company; or with any person who is an associate of TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu or the Company, by virtue of classes (1), (2), (3) and (4) of the definition of "associate" as described by the Hong Kong Takeovers Code;

(c) there were no agreements, arrangements or understandings (including any compensation arrangements) between (i) TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu or the party acting in concert with any one of them; and (ii) any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription, the Assignment of Loan and the Whitewash Waiver;

(d) there were no agreements or arrangements to which TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu and their concert parties was a party which relate to circumstances in which it might or might not invoke or seek to invoke a condition to the Subscription, the Assignment of Loan and the Whitewash Waiver;

(e) none of the Directors was interested, directly or indirectly, in any asset which had since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group or which was proposed to be acquired or disposed of by or leased to any member of the Group;

(f) no contracts or arrangements were subsisted in which a Director was materially interested in and which was significant in relation to the business of the Group;

(g) no benefit will be given to any of the Directors as compensation for loss of office or otherwise in connection with the Subscription, the Assignment of Loan and the Whitewash Waiver;

(h) there were no agreements or arrangements between any Directors and any other person which is conditional on or dependent upon the outcome of the Subscription, the Assignment of Loan and the Whitewash Waiver or otherwise connected with the Subscription, the Assignment of Loan and the Whitewash Waiver;

(i) no material contacts were entered into by TCL Industries, Mr. Li, Mr. Leong, Mr. Yuan and Ms. Lu in which any Director has a material personal interest;

(j) the Directors who are not required to abstain from voting on the resolutions in respect of the Subscription, the Assignment of Loan and the Whitewash Waiver intend, in respect of their own beneficial shareholdings, to vote in favour of the relevant resolutions at the EGM; and

(k) Mr. Albert Thomas da Rosa, Junior, a non-executive Director, is a partner of Cheung, Tong & Rosa, which provides general legal services and company secretarial services to the Company as to Hong Kong laws. Cheung, Tong & Rosa will receive usual professional fees in respect of such services to the Company in relation to the entering into of the Subscription Agreements and the Assignment Agreement.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses 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.

9. DIRECTORS' 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 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).

10. MARKET PRICES

The table below sets out the closing prices of the Shares as quoted on the Hong Kong Stock Exchange on the last trading day of each of the calendar months during the period commencing six months immediately preceding the date of the First Announcement and ending on the Last Trading Day and the Latest Practicable Date.

Date	Closing price per Shares *(HK$)*
30 November 2007	0.470
31 December 2007	0.530
31 January 2008	0.450
29 February 2008	0.455
31 March 2008	0.325
30 April 2008	0.405
29 May 2008 (the Last Trading Day)	0.365
30 June 2008	0.295
28 July 2008 (the Latest Practicable Date)	0.290

The highest and lowest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the period commencing six months preceding the date of the First Announcement and ending on the Latest Practicable Date are HK$0.540 on 1 March 2008 and HK$0.280 on 22 July 2008, respectively.

11. MATERIAL 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.

12. 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 Announcement and up to the Latest Practicable Date and are or may be material:

(a) a term sheet dated 12 October 2006 and entered into between the Company, TTE Corporation, TTE Europe SAS and Thomson S.A., and completed by (i) Master Resolving and Settlement Agreement dated 13 February 2007; (ii) Amendment to Amended and Restated Agreement (Angers) dated 13 February 2007 and entered into between TTE Corporation and Thomson S.A.; (iii) Trademark License (SABA) Agreement dated 13 February 2007 and entered into between Thomson S.A. and TTE Corporation; (iv) Amendment to Amended and Restated Thomson Trademark License Agreement dated 13 February 2007 and entered into between Thomson

S.A. and TTE corporation; and (v) Amended and Restated Thomson Trademark Agreement dated 1 July 2006 and entered into between TTE Corporation and Thomson S.A., in relation to restructuring of TTE Europe SAS. Further details of the term sheet are set out in the announcement of the Company dated 27 October 2006;

(b) the financial services framework agreement dated 27 October 2006 and entered into between the Company, TCL Corporation and TCL Finance Co., Ltd with a view to setting out, among other matters, the principal terms of the Deposit Services, the finance services and etc. Further details of the financial services framework agreement are set out in the announcements of the Company dated 9 March 2006 and 27 October 2006, respectively and the circular of the Company dated 27 March 2006;

(c) the underwriting agreement dated 15 May 2007 and entered into between the Company and TCL Industries, pursuant to which TCL Industries had agreed to be the underwriter for the rights issue offered by the Company with no underwriting commission, details of which are disclosed in the announcement and the circular of the Company dated 15 May 2007 and 5 June 2007 respectively;

(d) the purchase agreement in relation 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 as disclosed in the Bonds Announcement and the circular of the Company date 5 June 2007;

(e) the Subscription Agreements; and

(f) the Assignment Agreement.

13. EXPERT AND CONSENT

(a) The qualifications of Somerley Limited who has given opinion or advice which are contained in this circular are as follows:

Name	**Qualification**
Somerley Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

(b) As at the Latest Practicable Date, Somerley Limited did not have any shareholding interest 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.

(c) Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and/or references to its name in the form and context in which it appears.

(d) As at the Latest Practicable Date, Somerley Limited was not interested, directly or indirectly, in any asset which had since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group or which was proposed to be acquired or disposed of by or leased to any member of the Group.

14. SECRETARY AND QUALIFIED ACCOUNTANT OF THE COMPANY

The secretary of the Company is Ms. Pang Siu Yin, 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, an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

15. MISCELLANEOUS

(a) The registered office of TCL Industries is situated at Room 505, 5th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, New Territories, Hong Kong.

(b) The board of directors of TCL Industries comprises of Mr. Li Dongsheng, Mr. Yuan Bing, Ms. Lu Zhongli, Mr. Zheng Chuanlie and Mr. Jacky Zhou.

(c) The registered office of the Company is situated at Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

(d) The principal place of business of the Company is situated at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong.

(e) The correspondence address of the Directors is situated at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong.

(f) The registered office of Somerley Limited is situated at 10th Floor, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.

(g) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at 13th Floor, TCL Tower, 8 Tai Chung Road, Tsuen Wan, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. from Mondays to Fridays, except public holidays, and on the websites of the Company (www.tclhk.com) and the SFC (www.sfc.com) between the period from the date of this circular up to and including the date of the Second EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2006 and 2007, respectively;

(c) the quarterly results announcement of the Company for the three months ended 31 March 2008;

(d) the First Letter of Advice;

(e) the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 40 of this circular;

(f) any material contracts referred to in the section headed "Appendix II – General Information – 12. Material Contracts" of the First Circular; and

(g) the letter of consent as referred to in the section headed "Expert and consent" of "Appendix II – General Information – 13. Expert and Consent" of the First Circular.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01070)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of **TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED** (the "**Company**") will be held at Salon I & II, Mezzanine Level, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong at 5:00 p.m. on Friday, 15 August 2008 for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the execution of the subscription agreements (the "Subscription Agreements") dated 30 May 2008 and entered into between the Company and the Subscribers (as defined in the circular of the Company dated 31 July 2008), respectively, in relation to the subscription of 4,386,432,755 shares of HK$0.10 each in the share capital of the Company (the "Subscription Shares") at a price of HK$0.275 per Subscription Share (the "Subscription"), a copy of each of the Subscription Agreements has been produced to the meeting marked "A" and initialled by the chairman of the meeting for identification purpose and the Subscription and the performance by the Company thereof and the transactions contemplated thereby be and are hereby confirmed, ratified and approved; and that any one or more of the Directors be and are hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he or they may consider necessary or desirable for the purpose of giving effect to the Subscription Agreements and completing the transactions contemplated by the Subscription Agreements with such changes as any such Director(s) may consider necessary, desirable or expedient; and **THAT** the waiver for T.C.L. Industries Holdings (H.K.) Limited and its parties acting in concert from the obligations which may arise under Rule 26 of the Hong Kong Code on Takeovers and Mergers promulgated by the Securities and Futures Commission to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them as a result of the completion of the Subscription be and is hereby approved; and **THAT** the Directors be and are hereby authorized to issue and allot 4,386,432,755 shares of HK$0.10 each in the share capital of the Company to the Subscribers (or to such other person or persons as they may nominate) upon the completion of the Subscription pursuant to the terms of the Subscription Agreements."

By order of the Board
TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED
Li Dongsheng
Chairman

Hong Kong, 31 July 2008

Principal place of business:
13th Floor
TCL Tower
8 Tai Chung Road
Tsuen Wan New Territories
Hong Kong

Notes:

1. The Hong Kong branch register of members of the Company will be closed on Friday, 15, August 2008, on which no transfers of Shares will be registered. In order to be eligible to attend and vote at the EGM to be held on Friday, 15, August 2008, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 14 August 2008.

2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. A form of proxy for use at the meeting is enclosed. To be valid, the form of proxy, together with the notarially certified power of attorney or other authority (if any) under which it is signed must be lodged at the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event, not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof.

4. Where there are joint holders of any share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such shares as if he were solely entitled to vote, but if more than one of such joint holders be present at the meeting in person or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect of it.

5. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjournment thereof if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.

6. The votes to be taken at the meeting for all resolutions will be by way of poll.