1. CORPORATE INFORMATION

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

— manufacture and sale of colour television sets, and trading of related components

— manufacture and sale of other audio-visual products

— manufacture and sale of computer related products

In the opinion of the directors, the ultimate holding company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Report Standards (which also include Statements of Standard Accounting Practice ("SSAPs") 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 short term investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Negative goodwill (Continued)

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2%–4.5%
Leasehold improvements	25%–50%
Plant and machinery	9%–20%
Furniture, fixtures and equipment	18%–25%
Motor vehicles	18%–25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation (Continued)

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Trademarks

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

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses.

Short term investments

Short term investments are investments in equity securities and mutual funds held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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.

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.

A provision is recognised for expected warranty claims on products sold during the year, based on past experience of the level of repairs and returns. Assumptions used to calculate the provision include current sales levels and current information available about the cost of parts and after sales service expenses of the products.

Income tax

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

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

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

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

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

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Pension schemes

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

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 profit and loss account 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 plan is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Revenue recognition

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

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

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

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

Research and development costs

All research costs are charged to the profit and loss account as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Television		Computer		Audio-visual		Others		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	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	**21,794,739**	12,422,446	**1,976,507**	1,775,583	**1,304,379**	374,846	**524,215**	575,777	**—**	—	**25,599,840**	15,148,652
Intersegment sales	**680,059**	96,064	**3,834**	937	**945,818**	192,478	**3,072**	16,262	**(1,632,783)**	(305,741)	**—**	—
Total	**22,474,798**	12,518,510	**1,980,341**	1,776,520	**2,250,197**	567,324	**527,287**	592,039	**(1,632,783)**	(305,741)	**25,599,840**	15,148,652
Profit/(loss) from operating activities	**511,667**	573,685	**61,221**	31,241	**30,948**	(28,506)	**(17,884)**	(14,613)	**—**	—	**585,952**	561,807
Amortisation of goodwill	**(8,475)**	(8,475)	**(24,661)**	(24,661)	**—**	—	**(91)**	(274)	**—**	—	**(33,227)**	(33,410)
Amortisation of negative goodwill	**49,820**	—	**—**	—	**—**	—	**—**	—	**—**	—	**49,820**	—
Segment results	**553,012**	565,210	**36,560**	6,580	**30,948**	(28,506)	**(17,975)**	(14,887)	**—**	—	**602,545**	528,397
Interest income											**13,811**	9,188
Corporate expenses											**(104,488)**	(31,539)
Gain/(loss) on disposal of subsidiaries	**—**	—	**—**	—	**—**	—	**(2,075)**	1,331	**—**	—	**(2,075)**	1,331
Impairment of a long term investment	**—**	—	**—**	—	**—**	—	**(13,011)**	—	**—**	—	**(13,011)**	—
Finance costs											**(65,715)**	(32,929)
Share of profits and losses of jointly-controlled entities	**5,910**	8,193	**—**	—	**—**	—	**88,606**	329,482	**—**	—	**94,516**	337,675
Amortisation of goodwill on acquisition of jointly-controlled entities	**—**	—	**—**	—	**—**	—	**(57,321)**	(78,433)	**—**	—	**(57,321)**	(78,433)
Impairment of short term investments (previously a jointly-controlled entity)	**—**	—	**—**	—	**—**	—	**(29,026)**	—	**—**	—	**(29,026)**	—
Profit before tax											**439,236**	733,690
Tax											**(143,563)**	(84,093)
Profit before minority interests											**295,673**	649,597
Minority interests											**21,041**	(7,748)
Net profit from ordinary activities attributable to shareholders											**316,714**	641,849
Segment assets	**14,580,264**	6,386,559	**890,047**	715,576	**221,882**	73,135	**1,201,882**	551,334	**(876,951)**	(923,102)	**16,017,124**	6,803,502
Interests in jointly-controlled entities	**99,616**	107,977	**—**	—	**—**	—	**46,759**	1,545,398	**—**	—	**146,375**	1,653,375
Unallocated assets											**739,402**	213,019
Total assets											**16,902,901**	8,669,896
Segment liabilities	**13,165,415**	7,001,970	**474,269**	294,549	**211,971**	75,287	**712,472**	282,979	**(4,644,072)**	(4,013,668)	**9,920,055**	3,641,117
Unallocated liabilities											**2,629,888**	808,449
Total liabilities											**12,549,943**	4,449,566
Other segment information:												
Depreciation and amortisation	**242,028**	166,434	**27,837**	26,175	**11,411**	2,058	**60,861**	81,431	**—**	—	**342,137**	276,098
Impairment losses recognised in the profit and loss account	**—**	—	**—**	—	**—**	—	**42,037**	—	**—**	—	**42,037**	—
Capital expenditure	**449,287**	140,783	**5,972**	30,482	**40,613**	409	**121,269**	152,992	**—**	—	**617,141**	324,666
Negative goodwill recognised as income	**49,820**	654	**—**	—	**—**	—	**—**	—	**—**	—	**49,820**	654

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain assets and capital expenditure information for the Group's geographical segments.

Group

	Mainland China		Europe		North America		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**12,955,261**	12,116,567	**4,743,814**	324,715	**3,554,130**	—	**4,346,635**	2,707,370	**25,599,840**	15,148,652
Other segment information:										
Segment assets	**4,445,771**	5,263,922	**4,641,581**	318,120	**3,017,366**	—	**3,912,406**	1,221,460	**16,017,124**	6,803,502
Capital expenditure	**451,854**	306,019	**43,700**	15,461	**67,161**	—	**54,426**	3,186	**617,141**	324,666

5. TURNOVER

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

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2004	2003
	HK$'000	HK$'000
Cost of inventories sold	**21,160,532**	12,671,516
Depreciation	**248,434**	161,363
Research and development costs	**281,311**	72,320
Less: Government grants released*	**(16,908)**	(15,425)
Net research and development costs	**264,403**	56,895
Amortisation of trademarks**	**3,155**	2,892
Amortisation of goodwill of subsidiaries***	**33,227**	33,410
Negative goodwill recognised as income****	**(49,820)**	(654)
Minimum lease payments under operating leases for land and buildings	**72,081**	52,006
Auditors' remuneration	**9,423**	3,556
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	**963,859**	502,809
Defined contribution expense	**63,906**	26,113
Defined benefit expense (note 34)	**7,342**	—
	1,035,107	528,922
Loss/(gain) on disposal of fixed assets	**(1,331)**	1,416
Bad debt provision	**18,890**	15,586
Exchange gains, net	**(19,569)**	(2,750)
Interest income	**(13,811)**	(9,188)
Restructuring costs (note 29)	**16,029**	—
Provision for warranties (note 29)	**191,853**	—

* Certain government grants have been received for carrying out research activities within the Guangdong Province, 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 trademarks is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.

*** This is included in "Other operating expenses" on the face of the consolidated profit and loss account.

**** The negative goodwill recognised in the consolidated profit and loss account is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group 2004 HK$'000	2003 HK$'000
Interest on:		
Bank loans and facilities	**28,723**	22,439
Convertible notes	**7,541**	10,490
Loan from a minority shareholder	**9,083**	—
Loan from the ultimate holding company	**20,368**	—
	65,715	32,929

8. 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 2004 HK$'000	2003 HK$'000
Fees	**300**	270
Other emoluments:		
Salaries, allowances and benefits in kind	**3,072**	3,429
Performance related bonuses	**1,078**	394
Pension scheme contributions	**29**	31
	4,479	4,124

Fees include HK$300,000 (2003: HK$200,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors 2004	2003
Nil to HK$1,000,000	**10**	8
HK$1,000,001 to HK$1,500,000	**1**	1
	11	9

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,684**	4,349
Performance related bonuses	**1,164**	487
Pension scheme contributions	**36**	12
	7,884	4,848

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

	Number of employees	
	2004	2003
HK$1,000,001 to HK$1,500,000	**2**	4
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**1**	—
	4	4

10. SHARE OF PROFITS AND LOSSES OF JOINTLY-CONTROLLED ENTITIES

More than 90% of the Group's share of results of its jointly-controlled entities was derived from TCL Communication Technology Holdings Limited ("TCL Communication") and its subsidiaries (together the "TCL Communication Group"), a group mainly engaged in the design, development, manufacturing and marketing of mobile handsets.

The Company distributed a special dividend satisfied by the distribution in specie of shares in TCL Communication (the "Communication Shares") held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company (the "Distribution") to shareholders whose names appeared in the register of members of the Company on 23 September 2004. Pursuant thereto a total of 1,103,157,000 Communication Shares were distributed or sold (in case where the shareholders were entitled to but not qualified for the Distribution) and a total of 50,463,000 Communication Shares are retained by the Company as short term investments. The Company has undertaken to the Stock Exchange that it will not, without the prior written consent of the Stock Exchange and unless in compliance with the Listing Rules, within six months from the date on which dealings in the Communication Shares commence on the Stock Exchange, dispose of any of such Communication Shares save for transfer to the Company's holding companies.

10. SHARE OF PROFITS AND LOSSES OF JOINTLY-CONTROLLED ENTITIES (Continued)

On 27 September 2004, the TCL Communication Shares were listed on the main board of the Stock Exchange by way of an introduction.

Pursuant to the approval by the shareholders dated 9 September 2004, the share premium and the capital reserve of the Company were reduced to fund the Distribution.

The results of TCL Communication were equity accounted for by the Group up to 23 September 2004, the date before the Distribution. For further details of the results and financial position of the TCL Communication Group, please refer to the annual results announcement of TCL Communication dated 16 April 2005.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 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 in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK$'000	HK$'000
Group:		
Current — Hong Kong		
Charge for the year	**29,751**	17,685
Overprovision in prior years	**—**	(31)
Current — Elsewhere	**99,858**	59,800
Deferred (note 33)	**(98)**	(941)
	129,511	76,513
Share of tax attributable to:		
Jointly-controlled entities	**14,052**	7,580
Total tax charge for the year	**143,563**	84,093

11. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company, its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates is as follows:

	2004		2003	
	HK$'000	**%**	HK$'000	%
Profit before tax	**439,236**		733,690	
Tax at the statutory tax rates of different countries	**54,916**	**12.5**	224,843	30.6
Lower tax rate for specific provinces or local authority	**(82,724)**		(197,368)	
Effect on opening deferred tax of increase in rates	**(5,928)**		(190)	
Adjustments in respect of current tax of previous periods	**—**		31	
Income not subject to tax	**(49,655)**		(10,412)	
Expenses not deductible for tax	**128,543**		49,870	
Tax losses utilised from previous periods	**(9,078)**		(4,445)	
Tax losses not recognised	**109,530**		21,764	
Others	**(2,041)**		—	
Tax charge at the Group's effective rate	**143,563**	**32.7**	84,093	11.5

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK$1,771,631,000 (2003: HK$239,231,000) (note 36).

13. DIVIDENDS

	2004	2003
	HK$'000	HK$'000
Interim — 4 (2003: Nil) HK cents per share	**110,316**	—
Distribution in specie	**1,351,585**	—
Proposed final — 4 (2003: 10) HK cents per share	**110,346**	272,000
	1,572,247	272,000

As set out in more details in note 10, a special dividend of HK$1,351,585,000 in the form of distribution in specie of the Communication Shares held by the Company on the basis of 40 Communication Shares for every 100 shares of HK$0.10 each in the capital of the Company was made to the shareholders on the register of members on 23 September 2004.

13. DIVIDENDS (Continued)

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings and diluted earnings per share are based on:

	Year ended 31 December	
	2004	2003
	HK$'000	HK$'000
Earnings		
Net profit attributable to shareholders, used in the basic earnings per share calculation	**316,714**	641,849
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**7,541**	10,490
Adjustment to minority interest upon exercise of the Exchange Option (note 35)	**(20,597)**	—
Earnings for the purpose of diluted earnings per share	**303,658**	652,339

	Number of shares	
	2004	2003
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**2,736,752,618**	2,651,526,753
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**14,089,054**	13,470,468
Assumed issued on deemed conversion of all convertible notes outstanding during the year	**112,381,287**	136,857,676
Assumed issued on deemed exercise of the Exchange Option *(note 35)* outstanding during the year	**480,378,535**	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	**3,343,601,494**	2,801,854,897

15. FIXED ASSETS

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
Cost:							
At beginning of year	417,293	93,527	557,145	186,472	47,393	173,342	1,475,172
Additions	25,669	29,255	186,606	69,465	24,329	281,817	617,141
Acquisition of subsidiaries (note 37(a))	593,950	2,560	464,001	82,387	6,804	82,689	1,232,391
Disposal of subsidiaries (note 37(b))	—	—	—	(4,302)	(27)	—	(4,329)
Disposals	(22,034)	(96,511)	(8,080)	(45,857)	(13,321)	—	(185,803)
Transfers	292,993	3,396	60,925	6,635	46	(363,995)	—
Exchange realignment	29,297	80	33,969	7,824	(54)	5,951	77,067
At 31 December 2004	1,337,168	32,307	1,294,566	302,624	65,170	179,804	3,211,639
Accumulated depreciation:							
At beginning of year	98,652	69,200	305,244	105,635	27,522	—	606,253
Provided during the year	45,907	15,146	139,785	37,906	9,690	—	248,434
Disposal of subsidiaries (note 37(b))	—	—	(821)	(1,112)	(5)	—	(1,938)
Disposals	(2,540)	(72,671)	(4,951)	(25,737)	(10,032)	—	(115,931)
Exchange realignment	4,870	1	18,571	3,018	(43)	—	26,417
At 31 December 2004	146,889	11,676	457,828	119,710	27,132	—	763,235
Net book value:							
At 31 December 2004	1,190,279	20,631	836,738	182,914	38,038	179,804	2,448,404
At 31 December 2003	318,641	24,327	251,901	80,837	19,871	173,342	868,919

15. FIXED ASSETS (Continued)

Group (Continued)

An analysis of the Group's land and buildings is as follows:

	2004	2003
	HK$'000	HK$'000
Freehold:		
Elsewhere	**486,891**	—
Short term leases:		
Elsewhere	**96,517**	—
Medium term leases:		
Hong Kong	**29,071**	29,845
Elsewhere	**724,689**	387,448
	1,337,168	417,293

16. TRADEMARKS

Group

	HK$'000
Cost:	
At beginning of year	31,707
Exchange realignment	2,494
At 31 December 2004	34,201
Accumulated amortisation:	
At beginning of year	3,963
Provided during the year (note 6)	3,155
Exchange realignment	577
At 31 December 2004	7,695
Net book value:	
At 31 December 2004	26,506
At 31 December 2003	27,744

17. GOODWILL/NEGATIVE GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	**Negative goodwill**
	HK$'000	HK$'000
Cost:		
At beginning of year	336,670	(654)
Acquisition of subsidiaries (note 37(a))	—	(597,836)
Disposal of subsidiaries (note 37(b))	(5,313)	—
At 31 December 2004	331,357	(598,490)
Accumulated amortisation/(recognised as income):		
At beginning of year	92,131	(654)
Amortisation provided/(recognised as income) during the year	33,227	(49,820)
Disposal of subsidiaries (note 37(b))	(640)	—
At 31 December 2004	124,718	(50,474)
Net book value:		
At 31 December 2004	206,639	(548,016)
At 31 December 2003	244,539	—

At 31 December 2004, the amount of goodwill remaining in consolidated reserves, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2003: HK$1,819,000), representing its cost.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**1,704,595**	1,148,255
Due from subsidiaries	**685,019**	1,951,270
Due to subsidiaries	**(4,559)**	(141,858)
	2,385,055	2,957,667

The balances with subsidiaries are unsecured, interest-free, and have no fixed terms of repayment.

For the balance due from TTE Corporation of HK$2,228,138,000 (2003: Nil) included in current assets at 31 December 2004 is unsecured, bears interest at 0.6% per annum above inter-bank offer rates (being the Company's cost of fund) and is repayable on demand.

18. INTERESTS IN SUBSIDIARIES (Continued)

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 2004	2003	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL Electrical Appliance Company Limited (a) (c)	PRC	RMB88,130,825	**67**	—	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de C.V. (a)	Mexico	US$25,452,000	**67**	—	Manufacture of audio-visual products
RCA Componentes, S.A. de C.V. (a)	Mexico	US$6,103,000	**67**	—	Manufacture of audio-visual products
Renova Electronics Private Limited (a)	India	INR845,164,897	**67**	—	Trading of audio-visual products and components
TTE Corporation (a) @	British Virgin Islands/ Hong Kong	US$10,000	**67**	—	Investment holding
Schneider Electronics GmbH (a)	Germany	EUR2,000,000	**67**	100	Manufacture and sale of audio-visual products
Shenzhen TCL New Technology Company Limited (a)	PRC	RMB10,608,600	**67**	100	Manufacture and sale of audio-visual products
TCL – Thomson Electronics Europe SAS (a)	France	EUR14,267,000	**67**	—	Trading of audio-visual products and components
TCL (Vietnam) Corporation Limited (a)	Vietnam	VND37,135,000	**67**	100	Manufacture and sale of audio-visual products
TCL Computer Technology Co., Ltd.*	PRC	RMB100,000,000	**100**	100	Manufacture and sale of personal computers and peripheral products
TCL Digital Science and Technology (Wuxi) Company Limited (a) (b)	PRC	RMB122,570,000	**47** (d)	—	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.	PRC	RMB30,000,000	**51**	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited (a)	Hong Kong	HK$30,000,000	**67**	100	Trading of audio-visual products and components

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid up capital	% of equity attributable to the Company 2004	2003	Principal activities
TCL Electronics (Thailand) Co. Limited (a)	Thailand	THB100,000,000	**67**	—	Trading of audio-visual products and component
TCL Holdings (BVI) Limited (a)	British Virgin Islands/ Hong Kong	US$25,000	**67**	100	Investment Holding
TCL India Holdings Pvt. Limited (a)	India	INR100,000	**67**	—	Trading of audio-visual products and component
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 (a)	PRC	HK$30,000,000	**67**	—	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited (a)	PRC	RMB21,400,000	**67**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited (a)	PRC	RMB274,400,000	**67**	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited (a)	PRC	RMB21,400,000	**67**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited (a)	PRC	RMB10,608,000	**47** (d)	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited (a)	PRC	RMB107,000,000	**67**	100	Manufacture of audio-visual products
TCL OEM Sales Limited (a)	Hong Kong	HK$2	**67**	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited (a)	Hong Kong	HK$100	**67**	100	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited (a)	PRC	RMB106,819,156	**67**	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited (a)	British Virgin Islands/ Hong Kong	US$1	**67**	100	Investment Holding

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/paid up capital	% of equity attributable to the Company 2004	2003	Principal activities
TCL Overseas Marketing Limited (a)	British Virgin Islands/ Hong Kong	US$1	**67**	100	Trading of audio-visual products and components
TCL Retail (HK) Limited (a)	Hong Kong	HK$10,000	**67**	100	Trading of audio-visual products
TCL Technology Electronics (Huizhou) Co., Ltd.	PRC	RMB45,730,500	**67**	100	Manufacture and sale of audio-visual products
TCL Thomson Electronics (Thailand) Limited (a)	Thailand	THB220,000	**67**	—	Trading of audio-visual products and components
TCL – Thomson Electronics Polska S.P. Zo.o (a)	Poland	PLN30,000	**67**	—	Manufacture of audio-visual products
Thomson Televisions de Mexico, S.A de C.V. (a)	Mexico	US$16,000	**67**	—	Manufacture of audio-visual products
TTE Germany GmbH (a)	Germany	EUR25,000	**67**	—	Research & development service
TTE Multimedia (Beijing) Co., Limited (formerly known as Thomson Zhaowei Multimedia Co., Limited) (a)	PRC	RMB248,306,050	**67**	—	Manufacture of audio-visual products
TTE Technology Canada Limited (a)	Canada	CAD816,000	**67**	—	Trading of audio-visual products and components
TTE Technology Inc. (a)	USA	US$10,259,000	**67**	—	Trading of audio-visual products and components

@ Direct subsidiaries of the Company

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms

18. INTERESTS IN SUBSIDIARIES (Continued)

(a) Pursuant to a combination agreement dated 28 January 2004 entered into by the Company, TCL Corporation, and Thomson S.A. (the "Combination Agreement"), TTE Corporation was established to combine and manage the TV businesses and assets of the respective parties to the agreement. The Combination Agreement involved:

— the acquisition by the Company from TCL Corporation equity interest in certain entities located in PRC;

— the Company and its subsidiaries/associates undergoing restructuring to contribute the entire TV businesses and assets to TTE Corporation;

— the acquisition by TTE Corporation from Thomson S.A. and its associates the TV businesses comprising certain TV production plants, research and development facilities and current assets.

TTE Corporation, in return for the contribution made by the Company and Thomson S.A., issued shares to them representing 67% and 33% respectively of its issued share capital. Further details of the acquisition were set out in a circular issued by the Company dated 31 May 2004. The combination was completed on 30 July 2004.

(b) TCL Holdings (BVI) Limited ("TCL BVI") (a subsidiary of the Company) entered into an agreement dated 28 May 2004 with T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries") (a wholly-owned subsidiary of TCL Corporation) under which TCL BVI purchased from TCL Industries a 70% equity interest in TCL Digital Science and Technology (Wuxi) Company Limited ("Wuxi Co") at a consideration of RMB105.7 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 70% equity interest in Wuxi Co and inject the same into TTE Corporation. The acquisition was completed in July 2004.

(c) TCL BVI entered into an agreement dated 28 May 2004 with TCL Corporation and TCL Home Appliances (Huizhou) Company Limited (a wholly-subsidiary of TCL Corporation) under which TCL BVI acquired the 100% equity interest in Inner Mongolia TCL Electrical Appliance Company Limited ("Inner Mongolia Co") at a consideration of RMB125.8 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 100% equity interest in Inner Mongolia Co and inject the same into TTE Corporation. The acquisition was completed on in July 2004.

(d) These entities are accounted for as subsidiaries by virtue of control over the entities.

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.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**146,375**	983,773
Goodwill on acquisition	**—**	678,216
Provision for impairment	**—**	(8,614)
	146,375	1,653,375

The amounts of goodwill capitalised as an asset and the amount of goodwill remaining in consolidated reserves arising from the acquisition of jointly-controlled entities prior to the adoption of SSAP 30 in 2001 are as follows:

	Group	
	Goodwill capitalised as an asset	**Goodwill debited to capital reserve**
	HK$'000	HK$'000
Cost:		
At beginning of year	784,327	3,047
Disposal through distribution in specie	(784,327)	(3,047)
At 31 December 2004	—	—
Accumulated amortisation and impairment:		
At beginning of year	106,111	1,070
Amortisation provided during the year	57,321	—
Disposal through distribution in specie	(163,432)	(1,070)
At 31 December 2004	—	—
Net book value:		
At 31 December 2004	—	—
At 31 December 2003	678,216	1,977

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

Name	Business structure	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	Corporate	PRC	35	38	35	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Corporate	Philippines	33	33	33	Trading of audio-visual products
電大在線遠程教育技術有限公司*	Corporate	PRC	50	45	50	Provision of remote education services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the year on 23 September 2004, the Company's entire interest in a major jointly-controlled entity, Huizhou TCL Mobile Communication Co Ltd ("TCL Mobile"), was distributed to the Company's shareholders in form of distribution in specie of shares of TCL Communication, the then holding company of TCL Mobile. Details of the distribution are set out in note 10 to the financial statements.

20. LONG TERM INVESTMENTS

	Group 2004 HK$'000	Group 2003 HK$'000
Unlisted equity investments, at cost	**55,312**	1,682
Provision for impairment	**(13,011)**	—
	42,301	1,682

21. LONG TERM RECEIVABLES

	Group 2004 HK$'000	Group 2003 HK$'000
Angers Factory (a)	**168,376**	—
Trademark fee reinvestment (b)	**115,438**	—
	283,814	—

21. LONG TERM RECEIVABLES (Continued)

(a) Pursuant to the Agreement relating to Thomson Television Angers, TTE Corporation shall purchase certain existing assets and new assets of a factory owned by Thomson S.A. ("Angers Factory Assets") with an aggregate fair value of Euro16 million for a nominal consideration of Euro1 within five years from 30 July 2004. Should the aggregate fair market value of the Angers Factory Assets to be transferred to TTE Corporation is less than Euro16 million, Thomson S.A. is required to transfer other assets and/or cash to make up the shortfall.

(b) Pursuant to the Thomson Trademark License Agreement, Thomson S.A. is required to reinvest the trademark fee received from TTE Corporation in respect of sales of certain Thomson-owned brands televisions for the period from the second anniversary until the fifth anniversary after the closing of the Combination Agreement (i.e. 30 July 2004) in general brand awareness advertising costs for such brands for the benefits of TTE Corporation.

22. PREPAID ROYALTY

Group

	Principal portion	Discount portion	Total
	HK$'000	HK$'000	HK$'000
Total at 31 December 2004	605,099	71,196	676,295
Less: Portion classified as current assets (note 26)	(43,639)	(12,288)	(55,927)
Non-current portion	561,460	58,908	620,368

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

23. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**1,441,926**	513,026
Work in progress	**365,715**	170,992
Finished goods	**2,757,859**	1,757,482
	4,565,500	2,441,500

The carrying amount of inventories carried at net realisable value included in the above balance was HK$802,897,000 (2003: HK$209,600,000) as at the balance sheet date.

24. TRADE AND BILLS RECEIVABLES

	Group 2004 HK$'000	2003 HK$'000
Due from third parties:		
Trade receivables	**4,842,183**	757,822
Bills receivable	**907,848**	1,145,596
	5,750,031	1,903,418
Due from related parties (note 25)	**27,465**	6,825
Due from jointly-controlled entities (note 25)	**35,047**	6,551
Due from the ultimate holding company (note 25)	**—**	24,343
	5,812,543	1,941,137

24. TRADE AND BILLS RECEIVABLES (Continued)

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 also made on the open-account basis with credit terms of no more than 180 days. An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Current to 90 days	**5,191,272**	1,779,018
91 to 180 days	**552,555**	130,542
181 to 365 days	**65,602**	22,606
Over 365 days	**3,114**	8,971
	5,812,543	1,941,137

25. DUE FROM/TO RELATED PARTIES/JOINTLY-CONTROLLED ENTITIES/THE ULTIMATE HOLDING COMPANY

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except the amount due to the ultimate holding company which bears interest at 5.022% (10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

26. OTHER RECEIVABLES

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other receivables	**1,110,075**	357,116	**791**	10,646
Prepaid royalty (note 22)	**55,927**	—	**—**	—
Dividend receivable	**—**	2,453	**—**	—
Due from related parties (note 25)	**152,450**	—	**—**	—
	1,318,452	359,569	**791**	10,646

27. SHORT TERM INVESTMENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities listed in Hong Kong (a)	**32,801**	—	**32,801**	—
Mutual funds listed in Europe	**84,093**	—	**—**	—
At 31 December 2004, at market value	**116,894**	—	**32,801**	—

(a) The investments represent a total of 50,463,000 shares of TCL Communication which was reclassified from interests in jointly-controlled entities. They represent the remaining shares held by the Company after the distribution in specie, details of which are set out in note 10. A provision for impairment in the amount of HK$29,026,000 had been made to mark the carrying value to market price at 31 December 2004.

28. TRADE AND BILLS PAYABLES

	Group	
	2004	2003
	HK$'000	HK$'000
Due to third parties:		
Trade payables	**3,938,055**	1,788,972
Bills payable	**974,717**	985,806
	4,912,772	2,774,778
Due to related parties (note 25)	**1,675,929**	191,881
Due to jointly-controlled entities (note 25)	**60,512**	—
	6,649,213	2,966,659

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

	Group	
	2004	2003
	HK$'000	HK$'000
Current to 90 days	**6,123,466**	2,211,432
91 to 180 days	**479,123**	701,627
181 to 365 days	**15,610**	47,095
Over 365 days	**31,014**	6,505
	6,649,213	2,966,659

29. PROVISIONS

Group

	Restructuring costs	Warranties	Total
	HK$000	HK$000	HK$000
At 1 January 2003 and 2004	—	—	—
Acquisition of subsidiaries (note 37(a))	—	166,876	166,876
Arising during the year	16,029	191,853	207,882
Utilised	(14,594)	(122,795)	(137,389)
Exchange realignment	—	2,508	2,508
At 31 December 2004	1,435	238,442	239,877

Restructuring costs

A restructuring plan was drawn up in 2004 for certain reorganisation and rationalisation of the Group's business in order to optimise its industrial base and hence profitability. The restructuring is expected to be completed by 2006.

Pursuant to the Combination Agreement, Thomson S.A. has agreed to reimburse TTE Corporation up to Euro33 million of restructuring costs incurred within the first two years of the closing date of the Combination Agreement in relation to the Thomson TV Business injected into TTE Corporation, subject to certain adjustment as may be agreed by the parties. The restructuring costs reimbursed by Thomson S.A. were credited directly to restructuring costs.

30. BANK BORROWINGS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank loans:				
Secured	**—**	943	**—**	—
Unsecured	**1,986,511**	395,339	**1,866,252**	—
Trust receipt loans, unsecured	**205,742**	—	**—**	—
	2,192,253	396,282	**1,866,252**	—
Bank loans repayable:				
Within one year	**364,377**	113,929	**244,118**	—
In the second year	**94,118**	94,118	**94,118**	—
In the third to fifth years, inclusive	**1,528,016**	188,235	**1,528,016**	—
	1,986,511	396,282	**1,866,252**	—
Trust receipt loans	**205,742**	—	**—**	—
	2,192,253	396,282	**1,866,252**	—
Portion classified as current liabilities	**(570,119)**	(113,929)	**(244,118)**	—
Long term portion	**1,622,134**	282,353	**1,622,134**	—

At 31 December 2003, the secured bank loans were secured by the Group's bank deposits of HK$5,199,000 and land and buildings with a net book value of HK$472,000.

31. DUE TO A MINORITY SHAREHOLDER

The loan due to Thomson S.A. bears interest at 2.36% per annum (being the cost of fund of Thomson S.A.) and is secured by the Group's accounts receivable with a carrying value of HK$1,033,796,000. Such loan amount shall, from the first anniversary of the closing of the Combination Agreement (i.e. 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated.

32. CONVERTIBLE NOTES

Group and Company

	HK$'000
At beginning of year	347,000
Converted to shares during the year	(91,000)
At 31 December 2004	256,000

The principal terms of the convertible notes are as follows:

Issue price
The aggregate principal amount of the convertible notes is HK$350,000,000, issued at par on 8 November 2002.

Term and maturity date
Unless previously redeemed, converted or purchased and cancelled, the convertible notes will be redeemed in Hong Kong dollars at 100% of their principal amounts, plus accrued interest on 8 November 2005.

Interest
The convertible notes bear interest at the rate of 3% per annum, which is payable semi-annually in arrears.

Conversion period
The conversion period commenced on 8 November 2002 and will end on 8 November 2005.

Conversion rights
The noteholders have the right at any time during the conversion period to convert the convertible notes in whole or in part of the principal amount of not less than HK$10,000 into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment).

As the distribution in specie of shares of TCL Communication (as set out in note 10) was defined as capital distribution in accordance with the terms of the convertible notes, the conversion price of the convertible notes was adjusted from HK$2.556 per share to HK$2.06 per share.

Conversion shares
During the year, convertible notes amounting to HK$91,000,000 were converted into 35,602,496 new shares of the Company. As at 31 December 2004, assuming full conversion of the convertible notes at the adjusted conversion price, the number of shares to be issued will be 124,271,844 (2003 at initial conversion price: 135,758,999), representing approximately 4.5% (2003: 5.1%) of the existing issued share capital of the Company and approximately 4.3% (2003: 4.8%) of the issued share capital of the Company as enlarged by the issue of such shares.

Redemption at the option of the Company
The Company has an option to redeem, in whole or in part, the convertible notes (being HK$10,000 in principal amount or an integral multiple thereof) at 100% of their principal amount plus interest accrued to but excluding the date of redemption, after 18 months from 8 November 2002 if the closing price of the Company's shares on the Stock Exchange for at least 20 dealing days in a period of 30 consecutive dealing dates on the Stock Exchange is at least 130% of the conversion price in effect on such dealing day.

33. DEFERRED TAX

Deferred tax liabilities

Group

	2004		
	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 January 2003	2,031	—	2,031
Deferred tax charged/(credited) to the profit and loss account during the year (note 11)	(615)	431	(184)
Gross deferred tax liabilities at 31 December 2003 and 1 January 2004	1,416	431	1,847
Acquisition of subsidiaries (note 37(a))	29,305	—	29,305
Deferred tax charged/(credited) to the profit and loss account during the year (note 11)	3,268	(431)	2,837
Gross deferred tax liabilities at 31 December 2004	33,989	—	33,989

Deferred tax assets

Group

	2004				
	Elimination of unrealised profits arising from intra-group transactions HK$'000	General provisions HK$'000	Pension provisions HK$'000	Others HK$'000	Total HK$'000
At 1 January 2003	6,316	1,782	—	—	8,098
Deferred tax credited/(charged) to the profit and loss account during the year (note 11)	(1,691)	2,448	—	—	757
Gross deferred tax assets at 31 December 2003 and 1 January 2004	4,625	4,230	—	—	8,855
Acquisition of subsidiaries (note 37(a))	—	—	6,003	—	6,003
Deferred tax credited to the profit and loss account during the year (note 11)	675	908	1,313	39	2,935
Exchange realignment	—	—	790	—	790
Gross deferred tax assets at 31 December 2004	5,300	5,138	8,106	39	18,583

33. DEFERRED TAX (Continued)

The Group has tax losses of HK$676,607,000 (2003: HK$140,187,000) 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 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures.

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

34. 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 profit and loss account and the amounts recognised in the consolidated balance sheet for the plans.

	2004 **HK$'000**	2003 HK$'000
Net benefits expense		
Current service cost	**4,421**	—
Interest cost on benefits obligation	**2,921**	—
Net benefits expense	**7,342**	—
Benefits liabilities		
Benefit obligation	**141,043**	—
Unrecognised net actuarial losses	**(10,993)**	—
Benefits liabilities	**130,050**	—
Movements in the benefits liabilities during the year are as follows:		
At 1 January	**—**	—
Acquisition of subsidiaries (note 37(a))	**122,046**	—
Benefits expense (note 6)	**7,342**	—
Contributions	**(42)**	—
Exchange realignment	**704**	—
At 31 December	**130,050**	—

34. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (Continued)

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

	% per annum
Discount rate	4.0–5.5
Future salary increases	1.0–7.0
Future pension increases	1.3–3.5
Healthcare cost increase rate	5.0–9.5

35. SHARE CAPITAL

Shares

	Company	
	2004	2003
	HK$'000	HK$'000
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
2,757,960,632 (2003: 2,681,328,559) shares of HK$0.10 each	**275,796**	268,133

During the year, the movements in share capital (including share premium) were as follows:

(a) The subscription rights attaching to 41,029,577 share options were exercised, resulting in the issue of 41,029,577 shares of HK$0.10 each for a total cash consideration of HK$69,986,000.

(b) 35,602,496 shares of HK$0.10 each were issued pursuant to the conversion of the Company's convertible notes amounting to HK$91,000,000 at a conversion price of HK$2.556 per share.

(c) Pursuant to the shareholders approval on 9 September 2004, the share premium and capital reserve of the Company were utilised as to HK$1,389,347,000 and HK$164,169,000, respectively, to fund the distribution in specie of shares of TCL Communication (note 10).

35. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2003	2,630,998,852	263,100	1,205,670	1,468,770
Share option exercised	49,155,999	4,916	65,201	70,117
Conversion of convertible notes	1,173,708	117	2,883	3,000
At 31 December 2003	2,681,328,559	268,133	1,273,754	1,541,887
Share options exercised	41,029,577	4,103	65,883	69,986
Conversion of convertible notes	35,602,496	3,560	87,440	91,000
Distribution in specie (note 10)	—	—	(1,389,347)	(1,389,347)
At 31 December 2004	2,757,960,632	275,796	37,730	313,526

Share options

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

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

The eligible participants of the New Scheme include any Employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the board of directors 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.)

35. SHARE CAPITAL (Continued)

Share options (Continued)

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

At 31 December 2004, the number of shares issuable under share options granted under the schemes was 32,316,861, which represented approximately 1.2% of the Company's shares in issue as at that date.

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

Name or category of participant	Number of share options				Date of grant	Exercise price	Exercise period	Price of Company's shares at date of grant#	Price of Company's shares at exercise date*
	At 1 January 2004	Reclassification during the year	Exercised during the year	At 31 December 2004		HK$		HK$	HK$
Directors									
Li Dong Sheng	6,950,000	—	(6,950,000)	—	15 May 2003	1.550	Note 4	1.590	3.275
Yan Yong, Vincent	134,000	—	(66,000)	68,000	30 January 2003	2.114	Note 3	2.075	2.264
Suen Hay Wai, Felipe	700,000	—	(466,000)	234,000	30 January 2003	2.114	Note 3	2.075	2.778
Zhao Zhong Yao@	—	100,000	(100,000)	—	29 October 2001	0.994	Note 1	0.990	2.750
	—	200,000	(132,000)	68,000	30 January 2003	2.114	Note 3	2.075	2.750
	—	300,000	(232,000)	68,000					
Other employees									
	12,997,838	(100,000)	(11,003,838)	1,894,000	29 October 2001	0.994	Note 1	0.990	3.192
	10,000,000	—	—	10,000,000	4 November 2002	2.305	Note 2	2.175	
	41,864,600	(200,000)	(21,611,739)	20,052,861	30 January 2003	2.114	Note 3	2.075	2.721
	700,000	—	(700,000)	—	15 May 2003	1.550	Note 4	1.590	3.275
	65,562,438	(300,000)	(33,315,577)	31,946,861					
	73,346,438	—	(41,029,577)	32,316,861					

35. SHARE CAPITAL (Continued)

Share options (Continued)

Note 1 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

Note 2 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 3 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 4 Such share options are exercisable at any time from the date of grant to 14 November 2006.

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

* The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices immediately before the exercise dates over all of the exercises of options within the disclosure category.

@ Zhao Zhong Yao was appointed as a director on 18 May 2004. His share options were included in other employees' section in 2003.

Exchange Option

Pursuant to an exchange option agreement, the Company granted an option (the "Exchange Option") to Thomson S.A., the minority shareholder of TTE Corporation (a subsidiary of the Company), to exchange all of Thomson S.A.'s interest in TTE Corporation for 1,149,140,810 new shares to be issued by the Company. The option is exercisable from 27 September 2004 to 16 July 2005, subject to certain extensions. Details of the Exchange Option have been set out in a circular of the Company dated 31 May 2004.

36. RESERVES

Group

	Share premium account HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2003	1,205,670	66,204	427,321	14,772	1,404,368	3,118,335
Issue of shares upon exercise of share options (note 35)	65,201	—	—	—	—	65,201
Issue of shares upon conversion of convertible notes (note 35)	2,883	—	—	—	—	2,883
Exchange realignment	—	—	—	24,891	—	24,891
Realised on disposal	—	—	—	(113)	—	(113)
Net profit for the year	—	—	—	—	641,849	641,849
Final 2002 dividend	—	—	—	—	(928)	(928)
Proposed final 2003 dividend (note 13)	—	—	—	—	(272,000)	(272,000)
Transfer from retained profits	—	—	64,884	—	(64,884)	—
At 31 December 2003	1,273,754	66,204	492,205	39,550	1,708,405	3,580,118
Issue of shares upon exercise of share options (note 35)	65,883	—	—	—	—	65,883
Issue of shares upon conversion of convertible notes (note 35)	87,440	—	—	—	—	87,440
Goodwill realised on disposal of a jointly-controlled entity	—	1,977	—	—	—	1,977
Exchange realignment	—	—	—	66,393	—	66,393
Realised on disposal	—	—	(198)	—	198	—
Net profit for the year	—	—	—	—	316,714	316,714
Final 2003 dividend	—	—	—	—	(1,544)	(1,544)
Interim 2004 dividend	—	—	—	—	(110,316)	(110,316)
Distribution in specie	(1,389,347)	(9,082)	(69,683)	(6,544)	123,071	(1,351,585)
Proposed final 2004 dividend (note 13)	—	—	—	—	(110,346)	(110,346)
Transfer from retained profits	—	—	65,388	—	(65,388)	—
At 31 December 2004	37,730	59,099	487,712	99,399	1,860,794	2,544,734
Reserves retained by:						
Company and subsidiaries	37,730	59,099	465,115	99,394	1,855,114	2,516,452
Jointly-controlled entities	—	—	22,597	5	5,680	28,282
At 31 December 2004	37,730	59,099	487,712	99,399	1,860,794	2,544,734
Reserves retained by:						
Company and subsidiaries	1,273,754	66,204	388,825	38,503	1,219,946	2,987,232
Jointly-controlled entities	—	—	103,380	1,047	488,459	592,886
At 31 December 2003	1,273,754	66,204	492,205	39,550	1,708,405	3,580,118

36. RESERVES (Continued)

Group (Continued)

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

^ The Group's capital reserve originally represents 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 remain eliminated against the capital reserve is explained in note 17 to the financial statements.

Company

	Share premium account HK$'000	**Capital reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 January 2003	1,205,670	903,105#	43,302	2,152,077
Issue of shares upon exercise of share options	65,201	—	—	65,201
Issue of shares upon conversion of convertible notes	2,883	—	—	2,883
Net profit for the year	—	—	239,231	239,231
Final 2002 dividend	—	—	(928)	(928)
Proposed final 2003 dividend (note 13)	—	—	(272,000)	(272,000)
At 31 December 2003	1,273,754	903,105	9,605	2,186,464
Issue of shares upon exercise of share options	65,883	—	—	65,883
Issue of shares upon conversion of convertible notes	87,440	—	—	87,440
Net profit for the year	—	—	1,771,631	1,771,631
Final 2003 dividend	—	—	(1,544)	(1,544)
Interim 2004 dividend	—	—	(110,316)	(110,316)
Distribution in specie	(1,389,347)	(164,169)	—	(1,553,516)
Proposed final 2004 dividend (note 13)	—	—	(110,346)	(110,346)
At 31 December 2004	37,730	738,936	1,559,030	2,335,696

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.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	2004 HK$'000
Net assets acquired:		
Fixed assets	15	**1,232,391**
Long term investments		**1,164**
Long term receivables		**258,775**
Deferred tax assets	33	**6,003**
Cash and bank balances		**140,910**
Inventories		**1,724,038**
Trade and bills receivables		**752,139**
Prepayments, deposits and other receivables		**932,174**
Trade and bills payables		**(898,502)**
Tax payable		**(87,833)**
Other payables and accruals		**(189,164)**
Due to related companies, net		**(1,187,855)**
Provisions	29	**(166,876)**
Bank borrowings		**(149,030)**
Deferred tax liabilities	33	**(29,305)**
Pensions and other post-employment benefits	34	**(122,046)**
Minority interests		**(688,372)**
		1,528,611
Negative goodwill on acquisition	17	**(597,836)**
		930,775
Satisfied by:		
Cash		**213,785**
33% interests in the Group's TV business		**630,388**
Costs associated with the acquisition		**86,602**
		930,775

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

	2004 HK$'000
Cash paid	**(300,387)**
Cash and bank balances acquired	**140,910**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(159,477)**

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(a) Acquisition of subsidiaries (Continued)

On 30 July 2004, the Group acquired 67% equity interest in Thomson TV business under the Combination Agreement. Further details of the transaction are included in note 18(a) to the financial statements. Since its acquisition, Thomson TV business contributed HK$7,709,280,000 to the Group's turnover and incurred a consolidated loss after tax and before minority interests amounting to HK$218,703,000 for the year ended 31 December 2004.

On 28 May 2004, the Group acquired 70% equity interest in Wuxi Co and 100% equity interest in Inner Mongolia Co, further details of which are included in notes 18(b) and 18(c) to the financial statements, respectively. The results of the subsidiaries acquired had no significant impact on the Group's consolidated turnover or profit after tax during the year.

(b) Disposal of subsidiaries

	2004 **HK$'000**	2003 HK$'000
Net assets disposed of:		
Fixed assets	**2,391**	2,272
Goodwill	**4,673**	—
Inventories	**555**	9,218
Cash and bank balances	**2,958**	5,232
Trade and bills receivables	**551**	10,314
Prepayments, deposits and other receivables	**3,129**	9,040
Trade and bills payables	**(243)**	(24,175)
Other payables and accruals	**(2,729)**	(749)
Short term bank loan	**(943)**	—
Tax payable	**(374)**	—
Minority interests	**(5,034)**	—
	4,934	11,152
Gain/(loss) on disposal	**(2,075)**	1,331
Satisfied by cash	**2,859**	12,483

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

	2004 **HK$'000**	2003 HK$'000
Cash consideration received	**2,859**	12,483
Cash and bank balances disposed of	**(2,958)**	(5,232)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(99)**	7,251

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

The results of the subsidiaries disposed of in the current year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

38. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**25,415**	38,950
In the second to fifth years, inclusive	**17,192**	26,907
After five years	**222**	345
	42,829	66,202

In addition, the Group's share of jointly-controlled entities' own operating lease arrangements at the balance sheet date, which were not included in the above were as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**225**	807
In the second to fifth years, inclusive	**346**	628
After five years	**—**	74
	571	1,509

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted, but not provided for	**134,639**	187,436

In addition, the Group's share of the jointly-controlled entities' own capital commitments at the balance sheet date, which were not included in the above, were as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Contracted, but not provided for	**88**	4,418

40. CONTINGENT LIABILITIES

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

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bills discounted with recourse	**46,396**	64,882	**—**	—
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**—**	—	**1,265,712**	839,942
Guarantees given to a bank in connection with banking facilities granted to a jointly-controlled entity	**—**	—	**—**	3,673
Guarantees given in lien of utility and rental deposits	**3,525**	—	**—**	—
	49,921	64,882	**1,265,712**	843,615

As at 31 December 2004, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$545 million (2003: HK$391 million).

41. RELATED PARTY TRANSACTIONS

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

	Notes	**2004 HK$'000**	2003 HK$'000
Jointly-controlled entities:			
Sale of raw materials	(i)	**1,400,358**	1,356,348
Sale of finished goods	(ii)	**78,592**	—
Purchases of raw materials	(iii)	**—**	5,252
Purchases of finished goods	(iii)	**1,497,427**	1,469,536
Companies controlled by the ultimate holding company:			
Sale of raw materials	(i)	**29,151**	9,619
Purchases of raw materials	(iii)	**581,500**	434,641
Purchases of finished goods	(iii)	**41,501**	25,967
Sales handling fee income	(iv)	**858**	9,370
Subcontracting fee expense	(v)	**16,926**	4,301
Contract fee expense	(vi)	**—**	29,555
Cash discounts	(vii)	**—**	12,728
Interest expense	(viii)	**20,368**	—
Company controlled by a jointly-controlled entity:			
Sale of raw materials	(i)	**—**	31,575
Purchases of raw materials	(iii)	**—**	77,787
Thomson S.A. and its affiliates:			
Sale of finished goods	(ii)	**351,743**	—
Purchases of raw materials	(iii)	**1,738,305**	—
Purchases of finished goods	(ix)	**1,024,748**	—
Agency fee and cost reimbursement expenses	(x)	**454,977**	—
Styling service fee expense	(x)	**18,980**	—
Shared service fee expense	(x)	**129,336**	—
Interest expense	(xi)	**9,083**	—
Royalty expense	(xii)	**18,670**	—
Reimbursement of brand advertising costs	(xiii)	**11,973**	—
Strategic sourcing fee expense	(xiv)	**11,848**	—

Notes:

(i) The sale of raw materials were made at cost.

(ii) The sale of finished goods were carried out by reference to the prevailing market price for comparable transactions.

41. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

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

(iv) The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.

(v) The subcontracting fees were determined by reference to subcontracting fees charged by third party companies offering similar services.

(vi) The contract fee was the sum of the following:

(1) A fee equivalent to 8% of net asset value of the contracted operation as at the end of preceding financial year; and

(2) Depreciation costs of the contracted operation for this financial year.

(vii) The cash discounts paid were calculated as follows:

(1) For amounts settled within the credit period, the cash discount was calculated at a monthly rate of 0.465%.

(2) For settlement within the credit period, the amount of settlement by cash over 70% of the total settlement attracted a cash discount calculated at a monthly rate of 0.465%.

(viii) Interest was charged at 5.022% (10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

(ix) Purchases were made at terms such that the Group shall incur no loss and realise no profit from the arrangement.

(x) Agency fee, cost reimbursement, styling service fee and shared service fee expenses were charged by Thomson S.A. at cost.

(xi) Interest was charged at 2.36% per annum, being the cost of fund of Thomson S.A.

(xii) Royalties were charged at rate ranges that are consistent with the rates offered by Thomson S.A. to other television manufacturers and vary according to the country in which the colour television receivers are manufactured.

(xiii) Brand advertising costs represents advertising cost incurred by Thomson S.A. and were reimbursed by the Group at cost 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.

(xiv) Strategic sourcing fee expense was charged at an annual fee of Euro2.85 million (approximately HK$26.79 million).

42. POST BALANCE SHEET EVENT

On 25 February 2005, the name of the Company was changed from "TCL International Holdings Limited" to "TCL Multimedia Technology Holdings Limited" in English and from "TCL國際控股有限公司" to "TCL多媒體科技控股有限公司" in Chinese.

43. COMPARATIVE AMOUNTS

In order to better reflect the Group's financial results and position after the group restructuring in the current year, the presentation of geographical segment was changed, with new segments of Europe and North America added, and Hong Kong combined with Others in the comparative amounts of 2003.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2005.