

CORPORATE GOVERNANCE REPORT

The Board of Directors of TCL Multimedia ("Board") aims to achieve a high standard of corporate governance and business ethics in pursuing its mission of becoming the world's leader in the multimedia industry. The Group's ultimate goal is to maximize values for its shareholders and customers, and to provide opportunities for employees.

CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In November 2004, the Stock Exchange of Hong Kong Limited ("Stock Exchange") introduced the "Code on Corporate Governance Practices" (the "Code"), which has become effective for accounting periods commencing on or after 1 January 2005, with one exception on internal controls, which comes into effect for accounting periods commencing on or after 1 July 2005. The Code sets out a series of code provisions ("Code Provisions") with which listed issuers must comply or give considered reasons for any deviations. The rules on the Corporate Governance Report are found in a new Appendix 23 of the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

In April 2005, the Board adopted the Code Provisions as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Throughout the year ended 31 December 2005, the Group complied fully with the Code.

A. Directors

A1: The Board

Code Principle

The Code requires that an issuer should be headed by an effective Board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The Board of Directors, led by the Chairman, steers the Group's business direction. It is responsible for formulating the Group's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> At least four meetings a year. 	Yes	<ul style="list-style-type: none"> The majority of the Board met in person 4 times in 2005, and the Board met on 9 other occasions when a Board decision is required on major issues. Attendance of individual directors is stated in the table below.
<ul style="list-style-type: none"> All directors be given an opportunity to include matters in the agenda for regular Board meetings. 	Yes	<ul style="list-style-type: none"> Agenda are sent to directors a reasonable period of time prior to the Board meeting, and directors are encouraged to propose new items as AOB for discussion.
<ul style="list-style-type: none"> Notice of at least 14 days be given of a regular Board meeting. 	Yes	<ul style="list-style-type: none"> The Company generally gives notice of regular Board meetings at least 14 days in advance.
<ul style="list-style-type: none"> Access to advice and services of the company secretary. 	Yes	<ul style="list-style-type: none"> All Directors have access to the Company Secretary to seek advice and consultancy services.
<ul style="list-style-type: none"> Minutes of meetings kept by company secretary and open for inspection. Draft and final minutes sent to all Directors for comments within a reasonable time. 	Yes	<ul style="list-style-type: none"> The company secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to directors within a reasonable time after each meeting and generally be made available for inspection by directors/committee members.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> Agreed procedure for directors to seek independent professional advice at the company's expense. 	Yes	<ul style="list-style-type: none"> All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.
<ul style="list-style-type: none"> If a substantial shareholder/director has a conflict of interest in a material matter, Board meeting should be held. Such director must abstain from voting and not be counted in quorum. 	Yes	<ul style="list-style-type: none"> The Board follows an established procedure for entering into material transactions, which provides that material transactions with connected persons must be discussed in a Board meeting, during which such director must abstain from voting and not be counted in quorum.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend.

	Attendance	
	Regular Board Meeting	Special Board Meeting
Executive Directors		
Mr. LI Dong Sheng (<i>Chairman</i>)	4/4	6/9
Ms. LU Zhong Li	4/4	1/9
Mr. HU Qiu Sheng	2/4	1/9
Mr. YAN Yong	4/4	6/9
Mr. ZHAO Zhong Yao	3/4	3/9
Mr. SUEN Hay Wai	2/2	1/1
Mr. Alastair Kenneth Ruskin CAMPBELL	1/1	–
Mr. Didier TRUTT	1/1	–
Non-Executive Director		
Mr. Albert Thomas DA ROSA, Jr.	3/4	–
Independent Non-Executive Directors		
Mr. TANG Guliang	2/4	–
Mr. WANG Bing	3/4	–
Mr. HON Fong Ming	2/4	–

Mr. SUEN Hay Wai retired from the position of executive director on 22 June 2005. All other directors served for the whole of 2005, with the exception of Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT, who joined the Board as executive director on 31 August 2005.

A2. *Chairman and Managing Director*

Code Principle

The Code requires the roles of Chairman and CEO to be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Code Provisions	Alignment	Remarks
Responsibilities of the Chairman <ul style="list-style-type: none"> ▪ Roles of Chairman and CEO should be separate, clearly established and set out in writing. 	Yes	<ul style="list-style-type: none"> ▪ The position of Chairman of the Group is held by Mr. LI Dong Sheng, while the position of CEO is taken up by the managing director, Mr. YAN Yong. This segregation ensures a clear distinction between the Chairman's duty to manage the Board and the managing director's duty to manage the Group's business. The responsibilities of the Chairman and the managing director are listed below.
<ul style="list-style-type: none"> ▪ The Chairman should ensure all directors be briefed on issues arising at the Board meeting. 	Yes	<ul style="list-style-type: none"> ▪ Please refer to the responsibilities of the Chairman listed below.
<ul style="list-style-type: none"> ▪ The Chairman should ensure directors to receive adequate information. 	Yes	

Responsibilities of the Chairman

- Oversee the development of the long-term strategies, objectives and policies for the company
- Ensure that appropriate objectives, policies and strategies are adopted for each of the businesses of the company, that appropriate budgets are set for the businesses, that their performance is effectively monitored, and that guidance or direction is given where appropriate
- Ensure all directors are properly briefed on matters to be discussed at Board meetings
- Ensure all directors receive adequate, complete and reliable information in a timely manner
- Provide leadership for the Board
- Ensure that the Board works effectively and discharges its responsibilities
- Ensure that all key and appropriate issues are discussed by the Board in a timely manner
- Ensure that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other directors for inclusion in the agenda
- Ensure that good corporate practices and procedures are in place
- Encourage all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company
- Ensure appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole
- Facilitate the effective contribution of non-executive directors in particular and build constructive relations between executive and non-executive directors

- Ensure that queries raised by directors on Board papers and related materials are responded to in a timely manner
- Ensure the Board's responsibility to represent a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements
- Attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing his/her duly appointed delegate, to be available to answer questions at the AGM

Responsibilities of the Managing Director

- Provide leadership to the management for the implementation of the company's policy and report to the Board
- Oversee the realisation by the company of the objectives set by the Board
- Provide all such information to the Board as necessary to enable the Board to monitor the performance of management
- Put in place programmes for management development and succession
- With the financial controller, establish and maintain proper internal controls and systems as well as disclosure controls and procedures
- Discharge such duties and authority as may be delegated to him/her by the Board
- Be responsible to the Board for the development of the company and its operation, including the profits, cash and costs of all businesses
- Ensure that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board
- Advise the chairman on the allocation of duties to individual directors and the assignment of ad-hoc responsibilities or special tasks to directors or groups of directors
- Lead the company's processes for communicating to, and consulting with, employees
- Lead the company's public relations, including relations with the company's shareholders, governments, other public organizations, other companies and the public generally
- Regularly keep the chairman informed of all matters that may be of importance to the company, including its current performance and progress

A3: *Board Composition*

Code Principle

The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> Identify the independent non-executive directors in all corporate communications. 	Yes	<ul style="list-style-type: none"> Independent non-executive directors of the Group are disclosed in all major corporate materials as well as on the corporate website www.tclhk.com
Recommended Best Practice		
<ul style="list-style-type: none"> Maintain on the website an updated list of its directors identifying their role, function and (where applicable) independence. 	Yes	<ul style="list-style-type: none"> Please refer to the corporate website www.tclhk.com.

The Board comprises 11 directors, including 7 executive directors, 1 non-executive director and 3 independent non-executive directors. The biographies of the directors are given in the section "Director and Senior Management" of this Annual Report. None of the Directors is related to each other.

The non-executive directors, 75% of whom are independent, also play an important role on the Board. Accounting for more than one third of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole.

Throughout 2005, the Board at all times met the requirements for having at least 3 Independent non-executive directors ("INEDs"), and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED of his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A4: Appointment, Re-election and Removal

Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Nomination of Directors

The Board has not established a Nomination Committee, and the selection and approval of new directors is undertaken by the Board. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to election by shareholders at the first general meeting after the appointment.

In 2005, there were 2 Board Meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of directors. During the Board Meeting held on 30 August 2005, the Board considered the nomination submitted by Thomson S.A. ("Thomson") to have Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT appointed as new directors, and decided to have further discussions with Thomson on the nomination before confirming such appointment.

During the Board meeting held on 28 October 2005, the Board adopted a "Procedure and Criteria for Nomination of Directors", the details of which are set out below:

Procedure for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors
 - (a) Character and integrity
 - (b) The willingness to assume broad fiduciary responsibility
 - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
 - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the company
 - (e) Significant business or public experience relevant and beneficial to the Board and the company
 - (f) Breadth of knowledge about issues affecting the company
 - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
 - (h) Ability and willingness to contribute special competencies to Board activities
 - (i) Fit with the company's culture
2. Criteria Applicable to NEDs/INEDs
 - (a) Willingness and ability to make a sufficient time commitment to the affairs of the company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
 - (b) Accomplishments of the candidate in his/her or her field
 - (c) Outstanding professional and personal reputation
 - (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

The directors' attendance at the 2 Board meetings during which the Board considered matters regarding the nomination and/or appointment or re-appointment of directors is listed below:

	Attendance
Executive Directors	
Mr. LI Dong Sheng (<i>Chairman</i>)	2/2
Ms. LU Zhong Li	2/2
Mr. HU Qiu Sheng	1/2
Mr. YAN Yong	2/2
Mr. ZHAO Zhong Yao	1/2
Mr. SUEN Hay Wai	N/A
Mr. Alastair Kenneth Ruskin CAMPBELL	1/1
Mr. Didier TRUTT	1/1
Non-Executive Director	
Mr. Albert Thomas DA ROSA, Jr.	2/2
Independent Non-Executive Directors	
Mr. TANG Guliang	2/2
Mr. WANG Bing	2/2
Mr. HON Fong Ming	2/2

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> ▪ Non-executive directors should be appointed for a specific term, subject to re-election. ▪ All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting. ▪ Every director should be subject to rotation at least once every three years. 	Yes	<ul style="list-style-type: none"> ▪ In the last AGM held on 22 June 2005, all four non-executive Directors were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders. One-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the AGM in each year. A retiring director is eligible for re-election. ▪ Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT, appointed on 31 August 2005 as Directors, were elected at the general meeting held on 27 February 2006, which is the first general meeting held after their appointments.

A5: *Responsibilities of Directors*

Code Principle

Every director is required to keep abreast of his/her responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> ▪ Every newly appointed director should receive a comprehensive, formal induction 	Yes	<ul style="list-style-type: none"> ▪ Upon being appointed to the Board, each new director receives a comprehensive induction programme on the business of the Group, the duties of a director under both general law (common law and legislation) and the Listing Rules, and the terms of reference of the Board Committees. ▪ The directors receive further briefings when there are new developments to such information.
<ul style="list-style-type: none"> ▪ Functions of non-executive directors include: <ul style="list-style-type: none"> – Bring an independent judgment at the Board meeting; – Take the lead where there is potential conflicts of interests; – Serve on committees if invited; – Scrutinize the issuer's performance 	Yes	<ul style="list-style-type: none"> ▪ Strategic planning and monitoring are two major roles for the Company's directors. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required.
<ul style="list-style-type: none"> ▪ Directors should ensure that they can give sufficient time and attention to the affairs of the issuer. 	Yes	<ul style="list-style-type: none"> ▪ To ensure they can give sufficient attention to the Company, the directors have disclosed the number and nature of offices they held in public companies or organizations and other significant commitments. For details regarding the offices held by the directors, please refer to the section "Report of the Directors" of this Annual Report.
<ul style="list-style-type: none"> ▪ Directors must comply with their obligations under the Model Code. 	Yes	<ul style="list-style-type: none"> ▪ Please refer to the discussion on directors' securities dealing below.

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2005 are set out in the section "Report of the Directors" of this Annual Report.

A6: *Supply and Access to Information*

Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code provisions	Alignment	Remarks
<ul style="list-style-type: none"> ▪ Board papers should be sent to all directors at least three days before the date of Board/Committee meeting (or such other period as agreed). 	Yes	<ul style="list-style-type: none"> ▪ Board papers are dispatched to Board/Committee members within a time agreed by them prior to meetings.
<ul style="list-style-type: none"> ▪ Each director should have separate and independent access to senior management. 	Yes	<ul style="list-style-type: none"> ▪ All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.
<ul style="list-style-type: none"> ▪ Directors are entitled to have access to Board papers; steps must be taken to respond properly and fully to director queries. 	Yes	<ul style="list-style-type: none"> ▪ Board papers and minutes are made available for inspection by Directors and Committee Members.

B. **Remuneration of Directors and Senior Management**B1. *The Level and Make-up of Remuneration and Disclosures*

Remuneration of Directors

Code Principle

Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Remuneration Committee was established in April 2005 pursuant to the requirements of the Code. It meets from time to time to make recommendations to the Board on the Group's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Committee is governed by its terms of reference, which are available at the Group's website www.tclhk.com.

The Committee consists of 5 members, a majority of whom are INEDs, namely Mr. WANG Bing, who is also the chairman of the Committee, Mr. TANG Guliang and Mr HON Fong Ming. The other two members are non-executive director Mr. Albert Thomas DA ROSA, Jr. and executive director Madam LU Zhong Li.

During 2005, one meeting was held by the Committee which was attended by all its 5 members. The work it performed in the meeting includes:

- determining the basis of the remuneration of the newly appointed executive directors Mr. Alastair Kenneth Ruskin CAMPBELL and Mr. Didier TRUTT;
- reviewing the emolument policy and the levels of remuneration paid to the directors and senior management of the Group; and
- making the decision to engage an independent firm of consultants to review the emolument policy for Directors and senior management of the Group.

All the members attended the Remuneration Committee meeting in 2005.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and calibre, the Group provides a competitive remuneration package to its executive directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay and long-term incentive plan. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. Long-term incentive plan primarily consists of stock options. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The remuneration package of executives is designed so that a proportion is structured to link rewards to corporate and individual performance, and gives incentives to executives to perform at the highest levels. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- directors' fee, which is usually paid annually; and
- shares of the Group, which is awarded subject to the discretion of the Board.

The fees and any other reimbursement or emolument payable to the Directors are set out in details in the section "Report of the Directors" of this Annual Report.

C. Accountability and Audit

C1: Financial Reporting

Code Principle

The Board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

The Board is also responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

For the financial year under review, the Company has breached certain financial covenants under (i) USD180 Million Term & Revolving Loan Agreement dated 16 November 2004; and (ii) HK\$400 Million Term Loan Facility Agreement dated 23 December 2002 as amended and supplemented by a Deed of Amendment, Novation and Release dated 30 July 2004 which entitled the lenders thereunder to demand the Company for immediate payment of all the outstanding amount thereunder. Subsequent to the balance sheet date of 31 December 2005, the Company obtained from the lenders relevant waivers of the said breaches under the said two loan agreements on 31 March 2006.

Paragraph 65 of Hong Kong Accounting Standard 1 requires that all the outstanding amount under the said two loan agreements totaling approximately HK\$1,538 million will be treated as a current liability of the Company, even if the lenders under the said two loan agreements have agreed, after the balance sheet date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. As a result of the re-classification of the liability, the accounts for the financial year under review may indicate uncertainty in the Company's ability to continue operation as a going-concern. However, since the Company has obtained waivers in respect of the said breaches and the lenders have effectively waived their rights to demand payment, the directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

C2: *Internal Controls*

Code Principle

The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> The directors should at least annually conduct a review of the effectiveness of the system of internal controls. 	Yes	<ul style="list-style-type: none"> The Audit Committee has scheduled to devise a plan to review the systems of internal control of the Group in early 2006, and will carry out the plan accordingly within 2006.

Management currently takes the view that there is no immediate need to set up an Internal Audit function at the Group level in light of the fact that an Internal Audit function was set up by the wholly-owned subsidiary, TTE Corporation, in November 2005. The Internal Audit function of TTE Corporation reports directly to the managing director of the Group. It also reports to the Audit Committee at least twice a year.

C3: *Audit Committee*

Code Principle

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> Minutes be kept by a duly appointed secretary; and should be sent to all committee members within a reasonable time. 	Yes	<ul style="list-style-type: none"> Minutes are kept by the company secretary and are sent to all members within a reasonable time after each meeting.
<ul style="list-style-type: none"> A former partner of the existing auditors should not sit on the Audit Committee. 	Yes	<ul style="list-style-type: none"> The Committee does not have any members who used to work for the firm of external auditors of the Company.
<ul style="list-style-type: none"> The terms of reference of audit committee (containing the minimum prescribed duties) be made available on request and on the website. 	Yes	<ul style="list-style-type: none"> Please visit www.tclhk.com to download/view the information
<ul style="list-style-type: none"> Disclosure – statement from the audit committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the Board disagrees with the committee's view. 	Yes	<ul style="list-style-type: none"> The Audit Committee has recommended to re-appoint Messrs. Ernst & Young to be the Company's auditors, and the Board agrees to this recommendation.
<ul style="list-style-type: none"> The audit committee should be provided with sufficient resources to discharge its duties. 	Yes	<ul style="list-style-type: none"> There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.

The Audit Committee comprises 4 members, namely Mr. HON Fong Ming, Mr. TANG Guliang, Mr. WANG Bing and Mr. Albert T. DA ROSA, Jr. Mr. TANG Guliang is the chairman of the Committee. He is a certified public accountant in the PRC and a professor at Beijing Technology and Business University. The Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2005, the Committee met 5 times. Details of the members' attendance at the Audit Committee meetings in 2005 are as follows:

	Attendance
Mr. Albert Thomas DA ROSA, Jr.	5/5
Mr. TANG Guliang	5/5
Mr. WANG Bing	5/5
Mr. HON Fong Ming	4/5

Other attendees at the Audit Committee meetings include the Group's financial controller, the vice general manager, and the external auditors for discussion of the audit of the annual results only.

The work completed by the Audit Committee during 2005 included consideration of the following matters:

- the completeness and accuracy of the 2004 annual and 2005 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2004;
- the audit fees payable to external auditors for year 2005;
- the recommendation to the Board to increase human resources experienced in international finance to cater for the growing needs of the Group;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Ernst & Young as the external auditors, which the Board agreed and accepted;

D. Delegation by the Board

D1: Management Functions

Code Principle

An issuer should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the Board. 	Yes	The functions reserved to the Board are listed below.
<ul style="list-style-type: none"> Formalise the functions reserved to the Board and those delegated to management. 	Yes	<ul style="list-style-type: none"> Please refer to section D2 – Executive Committee for a list of functions delegated to management.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Group as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board Committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of directors and senior management; and
- communication with key stakeholders, including shareholders and regulatory bodies

D2: Board Committees

Code Principle

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> Clear terms of reference to enable proper discharge of committee functions. 	Yes	<ul style="list-style-type: none"> Please visit www.tclhk.com to download the "Terms of Reference" of the Remuneration Committee and the Audit Committee.
<ul style="list-style-type: none"> The terms of reference should require committees to report their decisions to the Board. 	Yes	

The Board has set up a number of Board Committees to oversee particular aspects of the Group's affairs. In particular, the Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference. It is responsible for implementing the objectives and strategic plans approved by the Board. To facilitate its work, the Board has delegated to the Executive Committee the power to make various types of decisions.

The Executive Committee consists of 4 Executive Directors as its members, namely Mr. LI Dong Sheng, Mr. HU Qiu Sheng, Mr. YAN Yong and Mr. ZHAO Zhong Yao.

The Executive Committee met twice in 2005 since its establishment in October 2005, and its work in this period includes:

- approving the appointment and accepting the resignation of the authorised representative and qualified accountant of the Group; and
- approving the change of the location of register of members.

The Executive Committee was set up in late October 2005, and thus only 2 meetings were convened in December 2005. The members' attendance at the Executive Committee meetings in 2005 is set out below:

	Attendance
Mr. LI Dong Sheng	–
Mr. HU Qiu Sheng	2/2
Mr. YAN Yong	2/2
Mr. ZHAO Zhong Yao	–

E. Communication with Shareholders

E1: *Effective Communication*

Shareholders

Code Principle

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> ▪ A separate resolution be proposed by the chairman for each substantially separate issue at that meeting. 	Yes	<ul style="list-style-type: none"> ▪ Separate resolutions are proposed at the meeting on each substantially separate issue, including the election of individual directors.
<ul style="list-style-type: none"> ▪ The chairman of the Board should attend the annual general meeting and arrange the Chairman of the Board Committees to attend. 	Yes	<ul style="list-style-type: none"> ▪ The Chairman attended the annual general meeting and the relevant chairmen of the Board Committees were arranged to answer questions at the general meetings.

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. The Company's AGM and EGM allow the directors to meet and communicate with shareholders. The Chairman is actively involved in organizing the AGM and personally chairs it, to ensure that shareholders' views are communicated to the Board. AGM proceedings are reviewed periodically to ensure that the Company follows best corporate governance practices. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures and other relevant information.

Shareholders can convene an EGM by following the procedure below:

- Any two or more shareholders or any one shareholder who is a recognized clearing house (or its nominee(s)), holding not less than one-tenth of the paid up capital of the Group, can deposit a written request to convene an EGM at 13/F TCL Tower, 8 Tai Chung Road, Tsuen Wan, NT, Hong Kong, the principal office of the Group in Hong Kong.
- The written request must state the objects of the meeting and signed by the shareholders concerned.

The most recent shareholders' meeting was the EGM held on 13 April 2006 at the J.W. Marriot Hotel in Hong Kong. The items discussed and the percentage of votes cast in favour of the resolutions regarding those items is set out below:

- Approved the Deposit Services under the Financial Services Framework Agreement and the proposed caps set out in the Notice of EGM: 83%

Investor Relations

The Company endeavours to maintain a high level of corporate transparency. Keeping shareholders¹, investors, analysts and bankers and other stakeholders aware of our corporate strategies and business operations is one of the missions for our investor relations team.

Led by the managing director, the Investor Relations team receives the greatest devotions of efforts from the Company, and maintains frequent communications with its key communication groups, to ensure that important information is disclosed timely through various effective channels, such as one-on-one analysts meetings, corporate presentation, company visits, press releases, etc. The Company hosted this kind of activities right after the results were announced, with directors and senior management present to address questions.

After the formation of TTE in 2004, TCL Multimedia has extended its market reach globally. Investors' interests are increasingly drawn towards gathering information on the Company's performance in the global marketplace. Our Investor Relations Team is trying its utmost to address the concerns of investors in a proactive manner.

In 2005, the Company's dedicated Investor Relations team held regular meetings with investors to keep them abreast of the Company's development and its future strategies. Senior management of the Company took part in several investor conferences during the year, including Merrill Lynch Pacific Rim Technology Conference in Shanghai and the CLSA China Forum in Beijing.

¹ The Company has a diversified shareholding structure with 32% public float. Key shareholders are shown in the section "Corporate Structure"

Key investor events in 2005

Event	Date
EGM (Change of Company Name)	22 February 2005
2004 Annual Results Announcement – Press Conference and Analyst Briefing	18 April 2005
2005 1st Quarter Results Announcement – Investor Conference Call	29 April 2005
2005 AGM	22 June 2005
2005 Interim Results Announcement – Press Conference and Analyst Briefing	30 August 2005
2005 3rd Quarter Results Announcement – Investor Conference Call	28 Oct 2005

Looking forward, our Investor Relations team will work continuously to enhance the quality of communication and uphold the corporate transparency. To ensure easy access of the Company's updated information, all of our published information including the statutory announcements, press releases and event calendars, are promptly posted on our newly-revamped website www.tclhk.com. Viewers can also put enquiries to the Board or senior management by contacting the Investor Relations Department at (852) 2437 7481 or email to hk.ir@tcl.com or directly by questions at an AGM or EGM.

Key investor events in 2006

Event	Date
EGM (Proposed increase in authorised share capital, continuing connected transactions and re-election of directors)	27 February 2006
EGM (Financial Service Framework Agreement)	13 April 2006
2005 Annual and 2006 1st Quarter Results Announcement – Press Conference and Analyst Briefing	27 April 2006
2006 AGM	Mid-June 2006
2006 Interim Results Announcement – Press Conference and Analyst Briefing	End August 2005
2006 3rd Quarter Results Announcement	End Oct 2005

E2: Voting by Poll

Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Alignment	Remarks
Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll.	Yes	<ul style="list-style-type: none"> Procedures for demanding a poll were set out in the circular accompanying the general meeting notices. The procedures were also explained during the general meeting proceedings.
<ul style="list-style-type: none"> Ensure that votes cast are properly counted and recorded. 	Yes	<ul style="list-style-type: none"> A representative of external auditor was appointed as scrutinizer.
<ul style="list-style-type: none"> Chairman of meeting should adequately explain the poll procedures at commencement of meeting. 	Yes	<ul style="list-style-type: none"> Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.

F. Beyond the Code

The Group does not take the Code as the ceiling for its corporate governance practices, and goes beyond the Code in the following aspects:

- Appropriate insurance cover has been arranged in respect of legal action against the directors and senior officers.
- All Board Committees adopt the same principles applicable to Board meetings to govern the procedures for their meetings, including but not limited to the length of notice given to members in advance of meetings, and the mechanism for members to inspect the meeting minutes.
- A significant proportion of the executive directors' remuneration is structured so as to link rewards to corporate and individual performance.
- Since 2001, the Group has adopted the practice to announce its quarterly financial results within 45 days after the end of the relevant quarter, and such quarterly financial reports are prepared using the same accounting policies applied to the interim and annual accounts.
- Since April 2001, the Group has volunteered to provide monthly shipment data for its key products in order to keep investors informed of the latest trend of its business.