

REPORT OF THE DIRECTORS

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

CHANGE OF COMPANY NAME

The name of the Company was changed from "TCL International Holdings Limited" to "TCL Multimedia Technology Holdings Limited" on 25 February 2005. The Chinese translation of the Company's name for identification purpose was changed from TCL 國際控股有限公司 to TCL 多媒體科技控股有限公司.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 131.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 132. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year, together with the reasons therefore, are set out in notes 34 and 37 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$3,700,681,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

REPORT OF THE DIRECTORS

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$1,367,000.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	5%
– the five largest suppliers combined	19%

Sales

– the largest customer	8%
– the five largest customers combined	19%

Three out of the five largest suppliers are companies controlled by Thomson S.A.. Save as disclosed above, none of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Li Dong Sheng (*Chairman*)
 Lu Zhong Li
 Hu Qiu Sheng
 Zhao Zhong Yao
 Yan Yong, Vincent (*Managing Director*)
 Alastair Kenneth Ruskin Campbell (*appointed on 31 August 2005*)
 Didier Trutt (*appointed on 31 August 2005*)
 Suen Hay Wai, Felipe (*retired on 22 June 2005*)

Non-executive director:

Albert Thomas da Rosa, Junior

Independent non-executive directors:

Tang Guliang
 Wang Bing
 Hon Fong Ming, Perry

In accordance with article 116 of the Company's articles of association, Mr. Li Dong Sheng, Mr. Zhao Zhong Yao, Mr. Yan Yong, Vincent and Ms. Lu Zhong Li will retire by rotation and will be eligible for re-election at the forthcoming annual general meeting. Mr. Li Dong Sheng, Mr. Yan Yong, Vincent and Ms. Lu Zhong Li will but Mr. Zhao Zhong Yao will not offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors will cease to hold such office at the conclusion of the forthcoming annual general meeting. Mr. Albert Thomas da Rosa, Junior, Mr. Tang Guliang and Mr. Wang Bing, being eligible, will but Dr. Hon Fong Ming will not offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

EMOLUMENTS OF DIRECTORS AND THE 5 HIGHEST-PAID EMPLOYEES

Particulars of the emoluments of the directors and the 5 highest-paid employees during the financial year are set out in notes 8 and 9 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 37 to 38 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 36 to the financial statements.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 28 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors or their associates had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(i) Long positions in shares of the Company

Directors	Type of interest	Number of shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	17,232,000	0.44%
Zhao Zhong Yao	Beneficial owner	232,000	0.006%

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

Directors	Type of interest	Number of underlying shares held	Percentage of issued share capital of the Company
Li Dong Sheng	Beneficial owner	5,000,000	0.13%
Hu Qiu Sheng	Beneficial owner	2,500,000	0.06%
Lu Zhong Li	Beneficial owner	2,500,000	0.06%
Yan Yong, Vincent	Beneficial owner	3,518,000	0.09%
Zhao Zhong Yao	Beneficial owner	3,268,000	0.08%
Albert Thomas da Rosa, Junior	Beneficial owner	300,000	0.008%
Tang Guliang	Beneficial owner	300,000	0.008%
Wang Bing	Beneficial owner	300,000	0.008%
Hon Fong Ming, Perry	Beneficial owner	300,000	0.008%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(iii) Long positions in shares of associated corporations of the Company

Directors	Name of associated corporation (Notes)	Type of interest	Number of shares held	Percentage of issued share capital of the relevant associated corporation
Li Dong Sheng	TCL Corporation	Beneficial owner	144,521,730	5.59%
Li Dong Sheng	TCL Communication	Beneficial owner	36,614,400	1.23%
Lu Zhong Li	TCL Corporation	Beneficial owner	23,569,661	0.91%
Hu Qiu Sheng	TCL Corporation	Beneficial owner	19,012,888	0.74%
Zhao Zhong Yao	TCL Corporation	Beneficial owner	6,444,954	0.25%
Zhao Zhong Yao	TCL Communication	Beneficial owner	92,800	0.003%

Notes:

- (a) TCL Corporation is the ultimate controlling shareholder of the Company.
- (b) TCL Communication Technology Holdings Limited ("TCL Communication") is a subsidiary of TCL Corporation.

(iv) Long positions in underlying shares of associated corporations of the Company – share options

Directors	Name of associated corporation	Type of interest	Number of underlying shares held	Percentage of issued share capital of the relevant associated corporation
Li Dong Sheng	TCL Communication	Beneficial owner	5,000,000	0.17%
Lu Zhong Li	TCL Communication	Beneficial owner	2,500,000	0.08%
Hu Qiu Sheng	TCL Communication	Beneficial owner	2,500,000	0.08%
Yan Yong, Vincent	TCL Communication	Beneficial owner	1,050,000	0.04%
Zhao Zhong Yao	TCL Communication	Beneficial owner	800,000	0.03%

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 37 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/ her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Details of the share options granted during the year are set out in note 37 to the financial statements.

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

SHARE OPTION SCHEMES (Continued)

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the following persons (other than a director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Shareholders	Type of interest	Number of shares held (Notes)	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289	38.74%
Thomson S.A.	Interest of controlled corporation	1,144,182,095	29.32%

Notes:

- (a) TCL Corporation is deemed to be interested in 1,512,121,289 shares held by T.C.L. Industries Holdings (H.K.) Ltd., its direct wholly owned subsidiary, for the purpose of the SFO.
- (b) Thomson S.A. is deemed to be interested in 67,610,864 shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with the following connected persons (as defined in the Listing Rules), namely:

- (1) TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (being an associate of TCL Corporation); and
- (2) Thomson S.A. ("Thomson") (being a substantial shareholder of the Company and a then controlling shareholder of TTE Corporation ("TTE"), a then non-wholly owned subsidiary of the Company) and its subsidiaries (being an associate of Thomson) (collectively, the "Thomson Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2005:

- (a) The Group and Thomson entered into two binding memoranda of understanding on 21 April 2005 in respect of:
 - (i) the transfer of certain activities from Thomson to TTE and other matters related thereto; and
 - (ii) the amendment of the Existing Angers Agreement.

Such memoranda were superseded by the Transfer Agreements and the Related Agreements as more particularly set out in the circular of the Company dated 2 August 2005.

- (b) The Company and TCL International Electronics (BVI) Limited, its direct wholly-owned subsidiary, entered into a sale and purchase agreement with TCL Corporation on 4 July 2005 for the acquisition of the 49% equity interest in TCL Electrical Appliance Sales Co., Ltd ("Sales Co.") from TCL Corporation at a consideration of Euro 6.5 million. Closing of the transaction was expected to be completed in May 2006, and after the closing Sales Co. will become a wholly-owned subsidiary of the Group.

CONNECTED TRANSACTIONS *(Continued)*

- (c) The Group and Thomson entered into the Transfer Closing Agreements on 1 September 2005 for the transfer of the sales and marketing activities in Europe and North America from Thomson to TTE. The closing of the Transfer Agreements gave rise to the termination or modifications of certain agreements entered into between the Group and the Thomson Group when TTE was established. Further details of the Transfer Agreements were set out in the circular of the Company dated 2 August 2005.
- (d) The Company entered into a sale and purchase agreement with Opta Systems, LLC., a company controlled by TCL Corporation, on 26 July 2005 to purchase certain intellectual property rights including trademarks, service marks, patents applications and copyrights at an adjusted consideration of US\$9.3 million.
- (e) The Company entered into an Option Closing Agreement with Thomson on 10 August 2005 and closing of the Exchange Option took place on the same day pursuant thereto. A total of 1,144,182,095 shares representing 29.32% of the enlarged issued share capital of the Company were issued to Thomson. On the same date, TTE received Euro 15,437,000 as a net settlement of: (i) Thomson's obligations under the DVD Option Agreement dated 30 July 2004 to contribute to TTE assets at a value of Euro 20,000,000 when TTE had decided not to exercise the option to acquire the Thomson DVD business; and (ii) the Company's obligations to pay Thomson HK\$43,800,000 being the net compensation payable by the Company under the Exchange Option Agreement dated 30 July 2004. Further details of the aforesaid agreements were set out in the circular of the Company dated 31 May 2004.
- (f) On 31 December 2005, the Company, TCL Corporation, TTE and Thomson entered into the Settlement Agreement and pursuant to which the Group agreed to pay to Thomson and Thomson also agreed to pay to the Group an aggregate amount of HK\$17,474,000 and HK\$51,513,000, respectively, as compensation for the shortfall of assets contribution by each other according to the Combination Agreement.

The Group entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2005:

- (a) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 entered into between the Company and TCL Corporation in connection with the purchases of electronic or electrical products from TCL Corporation and its subsidiaries (the "Supplier Group") for supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from the Supplier Group amounting to HK\$108,217,000 during the year.
- (b) Pursuant to the Master Supply Agreement dated 15 November 1999 entered into between the Company and TCL Corporation (as amended by the Deed of Variation on 11 December 2002), the Group (i) sold overseas raw materials to TCL Corporation amounting to HK\$1,342,848,000; (ii) purchased overseas raw materials from TCL Corporation amounting to HK\$1,287,684,000; (iii) purchased PRC TV related components and materials from TCL Corporation and certain of its subsidiaries amounting to HK\$36,474,000 and; (iv) sold raw materials to certain subsidiaries of TCL Corporation amounting to HK\$4,654,000 during the year.
- (c) Pursuant to the Distribution Agreement dated 15 November 1999 entered into between the Company and Sales Co. (a company which was owned as to 49% by TCL Corporation before closing of the acquisition of 49% interests in the Sales Co. by the Group in May 2006) (as amended by the Deed of Variation on 11 December 2002), there was no services fees and/or commissions paid by the Group to Sales Co. during the year.
- (d) The Group used subcontracting services provided by a subsidiary of TCL Corporation, for which subcontracting fees amounting to HK\$13,066,000 were paid during the year.
- (e) Pursuant to the Thomson Strategic Sourcing Agreement dated 30 July 2004 entered into between TTE and Thomson, TTE paid Thomson for the use of certain information systems at the ex-Thomson sites to facilitate its sourcing activities a fee of HK\$27,000,000 during the year.
- (f) Pursuant to the Television Patent License Agreement dated 30 July 2004 entered into between TTE and Thomson Licensing S.A. ("TLSA") (a wholly-owned subsidiary of Thomson) under which TLSA granted to TTE and its subsidiaries license, right and privilege under all of the patents owned, controlled and/or acquired by TLSA to make, lease and sell analog colour television receivers, the Group paid to TLSA royalties amounting to HK\$30,991,000 during the year.

CONNECTED TRANSACTIONS *(Continued)*

(g) Pursuant to the Receivables Purchase and Sales Agreement dated 30 July 2004 entered into between TTE and Thomson, Thomson purchased, on a rolling basis, up to a maximum outstanding amount of Euro 100 million of the trade receivables of TTE and its relevant subsidiaries. Such outstanding amount should, from the first anniversary of closing of the Combination Agreement on 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. At 31 December 2005, the aggregate outstanding balance due to Thomson amounted to HK\$536,364,000.

(h) Pursuant to the Thomson Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and Thomson under which TTE appointed Thomson as one of the only two preferred suppliers for certain components and should give priority to Thomson for the supply of the components, the Group purchased such components from Thomson amounting to HK\$2,077,850,000 during the year.

(i) TTE entered into the TCL Trademark License Agreement dated 30 July 2004 with TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20-year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sub-licensable and non-transferable license to use certain of its registered trademarks including "TCL" and "Rowa" for the manufacture and sale of TV products.

No royalties shall be payable by TTE to TCL Corporation prior to the second anniversary of the closing date of the Combination Agreement. During 2005, no payment has been made by the Group as royalties.

(j) Pursuant to the People's Republic of China Sales and Marketing Agency Agreement dated 30 July 2004 entered into between TTE and Sales Co. under which TTE appointed Sales Co. as (i) an exclusive sales and marketing agent to provide a whole range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE sold or designated to be sold in the PRC, and (ii) an exclusive distributor to purchase all TV end-products for resale in the PRC, the Group paid services fees and costs reimbursement of HK\$689,234,000 to Sales Co. during the year.

(k) Pursuant to the TCL Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TTE appointed TCL Corporation as one of the only two preferred suppliers for certain components and should give priority to TCL Corporation for the supply of the components, the Group paid to TCL Corporation HK\$572,365,000 for purchases of the components.

(l) TTE entered into the Agreement relating to Thomson Television Angers dated 30 July 2004 with Thomson (the "Existing Agreement") under which TTE purchased TV products from the Angers Factory at a price calculated so that TTE does not suffer any loss or make any profit from the purchase of such products.

On 1 September 2005, the Existing Agreement was terminated and replaced by the Amended and Restated Agreement (Angers) (the "Amended Angers Agreements") under which Thomson will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services at the Angers Factory. Pursuant to the Amended Angers Agreement, TTE will (i) purchase subcontracting service from Thomson, for not less than a minimum quantity, at an hourly rate effectively consistent with the production cost structure currently in use at TTE's European factory operations which were previously transferred to TTE from Thomson; and (ii) pay to Thomson a total of Euro 20 million over 5 years from 2005 to 2009 to cover reorganization costs of the Angers Factory.

During the year, HK\$838,580,000 was paid by the Group to Thomson for the purchases of TV products under the Existing Agreement, and HK\$234,285,000 and Euro 6 million were paid by the Group to Thomson for the subcontracting services and the reorganization costs, respectively, under the Amended Angers Agreement.

(m) TTE entered into the Thomson Trademark License Agreement dated 30 July 2004 with Thomson under which Thomson granted to TTE and certain of its subsidiaries for a 20-year term non-sub-licensable and non-transferable license to use certain of its registered trademarks including "Thomson", "RCA", "Scenium" and "LIFE" ("Thomson A Brands") and "SABA" ("Thomson B Brand") for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. No base royalties should be payable by TTE to Thomson prior to the end of the second anniversary of the closing of the Combination Agreement.

The agreement was amended on 1 September 2005, with additional royalties at a rate of 0.4% and 0.2% of the net sales of the TV products for Thomson A Brands and Thomson B Brand, respectively being charged by Thomson to TTE, notwithstanding the waiver of the base royalties mentioned above.

During the year, royalty payment and branding advertising costs reimbursement amounting to HK\$20,025,000 and HK\$14,476,000, respectively, were made by the Group to Thomson.

CONNECTED TRANSACTIONS *(Continued)*

- (n) TTE entered into the North America Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson Inc. (a wholly-owned subsidiary of Thomson) under which TTE appointed Thomson Inc. as an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in the U.S. and Canada, and with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in Mexico. This agreement was terminated on 1 September 2005 after the transfer of the sales and marketing activities in North America from Thomson to TTE.

During the year, HK\$226,324,000 was paid by the Group to Thomson as services fees and costs reimbursement.

- (o) TTE entered into the Europe, Middle East and Africa Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson under which TTE appointed Thomson as (i) an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in 29 countries in Europe, (ii) as an exclusive sales and marketing agent to provide product services with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in 17 other countries in Europe and Africa, and (iii) as a non-exclusive sales and marketing agent to provide product services with respect to TV end-products in other 24 countries as agreed between the parties.

During the year, HK\$645,883,000 was paid by the Group to Thomson as services fees and costs reimbursement.

- (p) TTE entered into the North America Service Agreement on 1 September 2005 with Thomson Inc. under which TTE appointed Thomson Inc. as its service provider to provide after-sales, logistics and other services in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designed to be sold in the North America. During the year, HK\$16,787,000 was paid by the Group to Thomson for all the cost and expenses incurred by Thomson for provision of the services.

- (q) TTE Technology, Inc. (a wholly-owned subsidiary of TTE) entered into the Laboratory Services Agreement on 1 September 2005 with Thomson Inc. under which TTE appointed Thomson Inc. as an independent contractor on a non-exclusive basis, to provide the laboratory services for TV and related products being developed by or for the TTE research and development laboratory located in North America. During the year, HK\$1,314,000 was paid by the Group to Thomson as service fee.

- (r) TTE entered into the Europe After Sales Services Agreement on 1 September 2005 with Thomson Sales Europe (a wholly owned subsidiary of Thomson) under which TTE appointed Thomson as its exclusive service provider to provide after-sales services with respect to TV and related products of the TTE Group sold or designed to be sold in certain European countries. During the year, no payment was made by the Group to Thomson for providing the services under this agreement.

- (s) TTE entered into the Logistics Management Agreement on 1 September 2005 with Thomson Sales Europe under which TTE provided to Thomson logistics management services with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designed to be sold in Europe and some other countries. During the year, HK\$965,000 was paid by Thomson to the Group as service fee.

- (t) Pursuant to the Thomson Styling Services Agreement dated 30 July 2004 entered into between TTE and Thomson, TTE subcontracted selected styling services (including industrial and other designs of TV products) to Thomson as an exclusive styling service provider in respect of all TV products of TTE and its subsidiaries bearing or marketed under the "Thomson" or "RCA" trademarks. During the year, HK\$21,744,000 was paid by the Group to Thomson for the styling services.

On 1 September 2005, the activities under the Thomson Styling Services Agreement were transferred to the TTE Group from Thomson, and on the same date TTE entered into the TTE Styling Services Agreement with Thomson under which Thomson engaged the TTE Group as an independent contractor, on a non-exclusive basis, to provide to the Thomson Group the styling services for and with respect to Thomson's products. During the year, HK\$1,608,000 was paid by Thomson to the Group as services fee.

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have confirmed that the above-mentioned continuing connected transactions were entered into: (i) in the ordinary and usual course of the Group's business; (ii) in accordance with the terms of the respective agreements governing such transactions on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iii) either on normal commercial terms or on terms no less favorable to the Group than those available to or from independent third parties.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

On 16 November 2004, the Group entered into a five-year term and revolving loan facilities agreement of US\$180 million with banks. Under the provision of the facilities agreement, it is an event of default if TCL Corporation, the Company's ultimate holding company, ceases to own beneficially, directly or indirectly, at least 35% or to be the single largest holder (beneficially and directly or indirectly) of the ordinary voting share capital of the Company, or to maintain the Board and management control of the Company. In the event of default, the lending banks may, among others, demand immediate repayment of all or any of the loans made to the Company under the facilities agreement, together with accrued interest. The obligation has been complied with.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events of the Group are set out in note 46 to the financial statements.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 29 to 45 in this annual report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors and one non-executive director of the Company.

AUDITORS

Ernst & Young retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dong Sheng
Chairman
Hong Kong

27 April 2006