NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal office of the Company is located at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the research, development, manufacturing and sale of mobile phones.

In the opinion of the directors, the ultimate holding company of the Group is TCL Corporation, a limited liability company registered in the PRC and listed in the Shenzhen Stock Exchange.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of the subsidiaries are consolidated from the date of acquisition, being the date of which the Group obtains control, and continues to be consolidated until the date that such control ceased.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

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

3. IMPACT OF NEW AND REVISED STATEMENT OF HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	"Presentation of Financial Statements"
HKAS 2	"Inventories"
HKAS 7	"Cash Flow Statements"
HKAS 8	"Accounting Policies, Changes in Accounting Estimates and Errors"
HKAS 10	"Events after the Balance Sheet Date"
HKAS 12	"Income Taxes"
HKAS 14	"Segment Reporting"
HKAS 16	"Property, Plant and Equipment"
HKAS 17	"Leases"
HKAS 18	"Revenue"
HKAS 19	"Employee Benefits"
HKAS 20	"Accounting for Government Grants and Disclosure of Government Assistance"
HKAS 21	"The Effects of Changes in Foreign Exchange Rates"
HKAS 23	"Borrowing Costs"
HKAS 24	"Related Party Disclosures"
HKAS 27	"Consolidated and Separate Financial Statements"
HKAS 32	"Financial Instruments: Disclosure and Presentation"
HKAS 33	"Earnings per Share"
HKAS 36	"Impairment of Assets"
HKAS 37	"Provisions, Contingent Liabilities and Contingent Assets"
HKAS 38	"Intangible Assets"
HKAS 39	"Financial Instruments: Recognition and Measurement"
HKAS 39	"Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment"
HKFRS 2	"Share-based Payment"
HKFRS 3	"Business Combinations"
HKFRS-INT 4	"Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

3. IMPACT OF NEW AND REVISED STATEMENT OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The adoption of HKASs 2,7,8,10,12,14,16,18,19,20,23,27,33,37,38 and HK-Int4 has no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related party disclosures.

The major effect of adoption of these HKFRSs is summarized as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums/land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKFRS2 – Share-based Payment

Upon the adoption of HKFRS2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The revised accounting policy for share-based payment transactions is described in more detail in note 5 "Summary of significant accounting policies" below.

As the Company did not have any share options granted before 31 December 2004, the adoption of HKFRS2 had no impact on the retained profits as at 31 December 2004. The Company has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS2 are summarized in note 5 to the financial statement.

3. IMPACT OF NEW AND REVISED STATEMENT OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS3 – Business Combinations

In prior years, negative goodwill arising on acquisition was carried in the balance sheet and was recognized in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortizable assets.

The adoption of HKFRS3 has resulted in the Group derecognising the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits.

The effects of the above changes are summarized in note 4 to the financial statements.

(d) HKAS 32 and HKAS 39 – Financial Instruments

Upon the adoption of HKAS 32, convertible bonds are split into liability and equity components. The effects of the above changes are summarised in note 4 to the financial statements.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation

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

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

5. SUMMARY SIGNIFICANT ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet at 1 January 2005 and 1 January 2004

At 1 January 2005 Effect of new policies (increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments HK$'000	HKFRS 3 & HKAS 38 Derecognition of negative goodwill HK$'000	Total HK$'000
Assets			
Property, plant and equipment	(11,736)	–	(11,736)
Prepaid land lease payment	11,736	–	11,736
Negative goodwill	–	38,638	38,638
	–	38,638	38,638
Equity			
Accumulated losses	–	38,638	38,638
	–	38,638	38,638

Adjustments/presentation taken effect retrospectively

At 1 January 2004 Effect of new policies (increase/(decrease))	Effect of adopting HKAS17 Prepaid land lease payments HK$'000
Assets	
Property, plant and equipment	(7,254)
Prepaid land lease payment	7,254
	–

5. SUMMARY SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting		
	HKFRS 2	HKFS 3	
		Recognition	
	Equity-settled	of negative	
	share option	goodwill	
Effect of new policies	arrangement	as income	Total
	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005			
Increase in administrative expenses	**(7,737)**	**–**	**(7,737)**
Increase in other revenues and gains	**–**	**6,812**	**6,812**
Increase in loss			**(925)**
Increase in basic loss per share (HK cents)			**(0.3)**
Increase in diluted loss per share (HK cents)			**(0.3)**
Year ended 31 December 2004			
Increase in other revenue and gains		38,638	38,638
Total decrease in loss			38,638
Decrease in basic loss per share (HK cents)			1.4
Decrease in diluted loss per share (HK cents)			1.3

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors, if the Group/Company has unilateral control, directly or indirectly, over the joint venture.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

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

Impairment of assets

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item if property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation 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 and buildings	2.86%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	20%
Motor vehicles	16.67%-20%

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Computer software

Purchased computer software is stated at cost, less any impairment losses, and is amortised on straight-line basis over its estimated useful life of five years.

Intellectual property

Purchased intellectual property is stated at cost, less any impairment losses, and is amortised on the straight-line basis over its estimated useful life.

Research and development costs

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

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

Leases

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

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average or standard costing 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.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible to 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, and assets similar in nature to cash, which are not restricted as to use.

Interest-bearing bank borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing bank borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

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.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.

Income tax

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

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

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

- except where the deferred tax liability arises from the initial recognition of an asset or liability 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 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°Aat the time of the transaction, affects neither the accounting profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and°Aat the time of the transaction, affects neither the accounting profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Revenue recognition

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

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

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

(c) Subsidy income, when there is reasonable assurance that the subsidy will be received and all attaching conditions have been complied with; and

(d) Value-added services income, upon provision of the relevant services.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

Central Pension Scheme

Subsidiaries operating in Mainland China have participated in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. These PRC subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

Mandatory Provident Fund

The Company's subsidiaries, incorporated in Hong Kong, operate a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. 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 Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the Scheme except for the employer voluntary contributions, which are refunded to the Company and its subsidiaries which are incorporated outside the PRC when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement indemnities

T&A Mobile Phones SAS ("T&A SAS") (formerly TCL & Alcatel Mobile Phones SAS), which is incorporated in France, operates a defined contribution plan (the "contribution plan") and a defined benefit pension plan (the "pension plan"). For the contribution plan, T&A SAS is not liable for any legal or constructive obligations under the contribution plan beyond the contributions paid, and no provision as such is made. For the pension plan, corresponding to retirement indemnities relating to T&A SAS's employees, liabilities and prepaid expenses are determined as follows:

- using the Projected Unit Credit Method, with projected final salary, which considers that each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Actuarial assumptions comprise mortality, rates of employee turnover and projection of future salary levels; and

- recognizing, over the expected average remaining working lives of the employees participating in the plan, actuarial gains and losses in excess of more than 10% of the present value of the defined benefit obligation or 10% of the fair value of any plan assets.

Government grant

Government grants are recognized 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 recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant related to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction on production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sales, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure qualifying assets is deducted from the borrowing costs capitalized. Borrowing costs are recognized as expenses in the income statement in the period in which they are incurred.

Dividends

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.

Foreign currencies

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired when there is an indication of impairment. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment were allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment was approximately HK$360,149,000 (2004: HK$427,940,000). More details are set out in note 17.

Management carries out the impairment review on property, plant and equipment by comparing the lower of carrying amount and recoverable amount of property, plant and equipment.

An impairment loss is recognised when the carrying amount of property, plant and equipment exceeds the recoverable amount. An impairment loss is charged to the income statement in the period in which it arises. Management assesses the recoverable amount by the higher of the fair value less costs to sell and the expected value in use which is determined by the expected useful life and the expected discounted net cashflow of property, plant and equipment.

Warranty claims

The Group generally offers warranties for its products for 12 to 24 months. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Were claims costs to differ by 10% from management's estimates, the warranty provisions would be an estimated amount of approximately HK$11 million higher or lower in the year of 2006.

Cross licensing compensation

The Group received Euro 20 million from Alcatel Participation for covering the potential mobile handsets intellectual property royalties claims by the original cross licensees who had entered into the cross licensing agreement with the Alcatel Group regarding the waived royalties payment among all the cross licensees in respect of the usage of the mobile handsets intellectual properties owned by the respective cross licensees.

Since Alcatel Group had transferred all their mobile handsets intellectual properties to the Group, the Group need to renegotiate with all the original cross licensees for a new cross licensing agreement where there might be risk that the Group might need to pay royalties to these cross licensees.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Cross licensing compensation (continued)

Accordingly, the management had based on their production plan and their past experience on royalties rate estimated the potential exposure on future royalties claims by the original cross licensees.

Were the future royalties claims by the original cross licensees to differ by 10% from management's estimates, the estimated potential exposure on future royalties claims would be an estimated amount of approximately Euro 1 million higher or lower in the future year.

8. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of mobile phones and related components. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single business segment.

The Group's revenue, and assets are principally attributable to various geographical regions. Each of the Group's geographical segments represents the location of the business division's production or service facilities, which are subject to risks and returns that are different from those of the other geographical segments.

The following tables present revenue, assets and expenditure information for the Group's geographical segments.

	France Year ended 31 December		The PRC Year ended 31 December		Mexico Year ended 31 December		Consolidated Year ended 31 December	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**2,167,591**	1,433,237	**2,444,296**	5,759,694	**1,051,809**	116,807	**5,663,696**	7,309,738

	France 31 December		The PRC 31 December		Mexico 31 December		Eliminations 31 December		Consolidated 31 December	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information:										
Segment assets	**820,516**	1,730,545	**6,596,664**	4,087,584	**509,535**	127,428	**(3,842,947)**	(424,509)	**4,083,768**	5,521,048

9. REVENUE, OTHER REVENUE AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of mobile phones and related accessories sold and services rendered during the year, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

An analysis of turnover, other revenue and gains is as follows:

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Revenue			
Sale of mobile phones and related components		**5,663,696**	7,309,738
Other revenue			
Interest income		**16,522**	16,469
Subsidy income		**22,043**	48,315
Value-added services income		**19,521**	10,211
Excess fund contributed from minority interest for the release of intellectual properties royalties guarantee		**91,791**	–
Reversal of restructuring reserves contributed from minority interest		**24,258**	–
Exchange gain		**–**	82,465
Other		**6,604**	3,558
		180,739	161,018
Gains			
Gain on disposal of a subsidiary	36	**–**	1,268
Excess over the cost of business combination/ negative goodwill recognised		**6,812**	41,398
		6,812	42,666
Other revenue and gains		**187,551**	203,684

Negative goodwill recognized represents the portion of negative goodwill arising on acquisition in expectation of identified future losses and expenses, which did not represent identifiable liabilities as at the date of acquisition, recognized during the year.

10. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging / (crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cost of inventories sold*		**5,453,371**	6,124,561
Depreciation of property, plant and equipment	17	**113,240**	64,731
Prepaid land lease recognised	18	**548**	390
Amortisation of intangible assets	19	**22,416**	1,292
Brand management fee/TCL Brand Common Fund		**10,155**	27,816
Minimum lease payments under operating leases in respect of land and buildings		**23,966**	20,024
Auditors' remuneration		**2,864**	1,922
Employee benefits expense (including directors' remuneration (note 12)):			
Salaries and wages		**663,132**	343,408
Equity-settled share option expense		**7,737**	–
Pension Scheme contributions			
Defined contribution scheme		**29,304**	27,195
Defined benefit schemes		**(40,349)**	3,098
		659,824	373,701
Impairment loss of trade receivables***		**32,609**	4,335
Provision against inventory obsolescence and net realizable value		**122,587**	156,881
Product warranty provisions	28	**156,470**	88,472
Loss on disposal of property, plant & equipment		**6,072**	901
Reversal of impairment of property, plant & equipment **	17	**–**	(239)

* *The provision against inventory obsolescence and net realisable value is included in "Cost of sales" on the face of the consolidated income statement.*

** *The reversal of impairment of property, plant and equipment is included in "Other operating expenses" on the face of the consolidated income statement.*

*** *Impairment loss of trade receivables is mainly made for the Group's customers operating in the PRC.*

11. FINANCE COSTS

	Group	
	2005 HK$'000	2004 HK$'000
Interest on bank loans, and other loans wholly repayable within five years	**12,613**	14,620
Interest on finance leases	**–**	271
Interest on convertible notes	**2,373**	–
Interest on discounted notes and factored trade receivables*	**5,881**	5,361
	20,867	20,252

* *The effective interest rates of discounted notes and factored trade receivables are 0.35% per month and 0.17% per month respectively.*

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees	**1,623**	773
Other emoluments:		
Salaries, allowances and benefits in kind	**2,875**	1,306
Performance related bonuses	**–**	–
Employee share option benefits	**2,073**	–
Pension scheme contributions	**70**	43
	6,641	2,122

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been amortised to income statement, was determined as at the date of the grant and included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	HK$'000
Mr. Shi Cuiming	**180**	31
Mr. Wang Chongju	**180**	31
Mr. Lau Siu Ki	**180**	31
	540	93

During the year, all independent non-executive directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such options, which has been amortised to income statement, was determined as at the date of the grant and included in the above directors' remuneration disclosures (2004: Nil).

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors

2005	Fees HK$'000	Salaries allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors					
Mr. Li Dong Sheng	120	10	501	7	638
Mr. Wan Mingjian	–	206	–	7	213
Mr. Yuan Xin Cheng	–	–	300	–	300
Dr. Liu Fei	63	1,435	160	14	1,672
Mr. Yan Yong, Vincent	120	10	105	7	242
Mr. Du Xiaopeng, Simon	120	318	321	7	766
Dr. Guo Aiping, George	120	851	95	26	1,092
Mr. Wong Toe Yeung, Chambers	540	45	501	2	1,088
	1,083	2,875	1,983	70	6,011

2004	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors					
Mr. Li Dong Sheng	40	4	–	2	46
Mr. Wan Mingjian	40	399	–	7	446
Mr. Yuan Xin Cheng	–	–	–	–	–
Mr. Yan Yong, Vincent	40	4	–	2	46
Mr. Du Xiaopeng, Simon	40	272	–	7	319
Dr. Guo Aiping, George	40	281	–	9	330
Mr. Wong Toe Yeung	480	40	–	4	524
	680	1,000	–	31	1,711

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

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out above.

12. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors (continued)

Details of the remuneration of the remaining three (2004: three) non-directors, highest paid employees for the year are as follows:

	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**4,280**	1,810
Performance related bonuses	**–**	–
Employee share option benefits	**–**	–
Pension scheme contributions	**378**	77
	4,658	1,887

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

	Number of Non-directors	
	2005	2004
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**2**	–
	3	3

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such options, which should be amortised to the income statement, was determined as at the date of the grant and was included in the above non-director, highest paid employees' remuneration disclosures.

13. TAX

Group:

	2005 HK$'000	2004 HK$'000
Current year provision:		
Hong Kong	**323**	348
Mainland China		
Charge for the year	**2,639**	48,106
Overprovision in prior years	**–**	(45,950)
Elsewhere	**15,914**	(4,181)
Deferred (notes 32)	**5,754**	(1,321)
Tax charge/(credit) for the year	**24,630**	(2,998)

Hong Kong profits tax has been provided at a rate of 17.5%, (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the countries of which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

13. TAX (continued)

The normal national income tax rate in China is 30%. However, China provides a number of tax benefits to foreign investment enterprises. Those foreign investment enterprises accredited as high and new technology enterprises in the high and new technology development parks designated by the State Council enjoy a national income tax rate of 15%. Those foreign investment enterprises located in the designated western areas of China (including Inner Mongolia) also enjoy a national income tax rate of 15% from 2001 to 2010. In addition, foreign investment enterprises that are in manufacturing business and scheduled to operate no less than 10 years are exempt from national income tax for two years starting from the first profit-making year and enjoy a 50% reduction in the applicable national income tax rate for the following three years. Furthermore, those manufacturing foreign investment enterprises designated as advanced technology enterprises enjoy additional three years' 50% reduction in the applicable national income tax rate subject to a minimum rate of 10%. Local enterprise income tax is often waived or reduced during this tax incentive period.

Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a subsidiary of the Company in the PRC, has a high and new technology enterprise accreditation effective until 28 May 2005. It was exempt from the national income tax in 2000 and 2001 and has been subject to a national income tax rate of 7.5% since 2002. The 7.5% income tax rate for TCL Mobile was expired at the end of 2004. By the end of 2004, TCL Mobile obtained its advanced technology enterprise accreditation and hence was subject to a national income tax rate of 10% from 2005 to 2007.

According to the Income Tax Law of the PRC on the Enterprises with Foreign Investment and Foreign Enterprises, TCL Mobile Communication (Hohhot) Co., Ltd. ("Mobile Hohhot"), a subsidiary of the Company in the PRC, is entitled to exemption from the PRC corporate income tax for two years commencing from its first profit-making year and thereafter is entitled to a 50% reduction in its PRC corporate income tax for the subsequent three years. Mobile Hohhot also enjoys preferential tax treatment granted to foreign investment enterprises located in the western region of China, including 50% reduction in national corporate income tax until 2010. As Mobile (Hohhot) commenced to make profits in 2002, it was exempt from PRC corporate income tax in 2002 and 2003, and the applicable PRC corporate income tax rate in 2004 to 2006 is 7.5%. If Mobile (Hohhot) received its advanced technology enterprise accreditation at or before the end of 2006 and the relevant PRC tax law remains effective, Mobile (Hohhot) would enjoy a PRC corporate income tax rate of 10% for three years starting 2007. Otherwise, Mobile (Hohhot) would be subject to the PRC corporate income tax rate of 15% from 2007 to 2010 and 30% thereafter.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries, are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	2005 HK$'000	**%**	2004 HK$'000	%
Loss before tax	**(1,871,446)**		(304,205)	
Tax at the applicable rates				
– 33%	**(566,082)**	**30.2**	(128,631)	42.3
– 17.5%	**(27,308)**	**1.5**	14,977	(4.9)
Sub-total	**(593,390)**	**31.7**	(113,654)	37.4
Lower tax rate for specific provinces or local authority	**258,479**	**(13.8)**	25,292	(8.3)
Income not subject to tax	**(20,322)**	**1.1**	(30,542)	10.0
Expenses not deductible for tax	**6,882**	**(0.4)**	275	(0.1)
Tax loss not recognised	**372,981**	**(19.9)**	161,581	(53.1)
Adjustments in respect of current tax of previous periods	**–**	**–**	(45,950)	15.1
Tax charge/(credit) at the Group's effective rate	**24,630**	**(1.3)**	(2,998)	1.0

14. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$1,665,843,000 (2004: HK$62,934,000) (note 35(b)).

15 DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2005.

In 2004, TCL Mobile declared an interim dividend of HK$1,376,132,000 (RMB1,458,700,000) to its then shareholders. Subsequently on 25 August 2004, except for T.C.L. Industries Holdings (H.K.) Limited whose reinvestment was in the form of cash.

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

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

	2005	2004
		(Restated)
	HK$'000	HK$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(1,608,204)**	(184,897)
Loss attributable to minority interest	**(287,872)**	(116,310)
Loss for the purposes of diluted loss per share	**(1,896,076)**	(301,207)

	Number of shares	
Shares	**2005**	2004
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**2,892,183,904**	2,827,500,000
Effect of diluted weighted average number of ordinary shares:		
Assumed issued on deemed exercise of option by the minority shareholder of the joint venture formed between the Company and Alcatel (the "Joint Venture") by converting its interest in the Joint Venture into the shares of the Company	**48,849,041**	131,409,915
	2,941,032,945	2,958,909,915

The calculation of the diluted loss per share for 2005 has also taken into account the convertible notes and share options outstanding during the year. As the Company incurred loss during the year, any conversion of convertible notes is anti-dilutive. Since the exercise price of the share option during the year is higher than the fair market value of the ordinary share, the share option outstanding during the year does not have a dilutive effect to the Company.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost	83,411	442,294	78,272	12,462	1,525	617,964
Accumulated depreciation and impairment	(3,117)	(136,445)	(43,945)	(6,517)	–	(190,024)
Net carrying amount	80,294	305,849	34,327	5,945	1,525	427,940
At 1 January 2005, net of accumulated depreciation and impairment	80,294	305,849	34,327	5,945	1,525	427,940
Additions	5,065	39,849	5,633	667	2,989	54,203
Disposals	(137)	(9,605)	(5,199)	(812)	–	(15,753)
Depreciation provided during the year	(2,501)	(96,434)	(12,518)	(1,787)	–	(113,240)
Written back on disposals	–	3,835	2,819	560	–	7,214
Transfers	–	1,878	–	–	(1,878)	–
Exchange realignments	890	(306)	(867)	68	–	(215)
At 31 December 2005, net of accumulated depreciation and impairment	83,611	245,066	24,195	4,641	2,636	360,149
At 31 December 2005:						
Cost	90,119	472,778	78,723	12,533	2,636	656,789
Accumulated depreciation and impairment	(6,508)	(227,712)	(54,528)	(7,892)	–	(296,640)
Net carrying amount	83,611	245,066	24,195	4,641	2,636	360,149

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost	27,742	244,558	21,718	11,174	10,833	316,025
Accumulated depreciation and impairment	(1,670)	(57,013)	(5,572)	(3,385)	–	(67,640)
Net carrying amount	26,072	187,545	16,146	7,789	10,833	248,385
At 1 January 2004, net of accumulated depreciation and impairment	26,072	187,545	16,146	7,789	10,833	248,385
Additions	41,496	121,234	12,116	987	4,865	180,698
Disposals	–	(2,318)	(1,459)	(583)	–	(4,360)
Acquisition of subsidiaries	–	47,104	13,270	59	319	60,752
Depreciation provided during the year	(1,447)	(53,451)	(7,165)	(2,668)	–	(64,731)
Impairment provided/(reversal) during the year	–	239	–	–	–	239
Depreciation written back on disposals	–	503	525	361	–	1,389
Transfers	14,173	337	–	–	(14,510)	–
Exchange realignments	–	4,656	894	–	18	5,568
At 31 December 2004, net of accumulated depreciation and impairment	80,294	305,849	34,327	5,945	1,525	427,940
At 31 December 2004:						
Cost	83,411	442,294	78,272	12,462	1,525	617,964
Accumulated depreciation and impairment	(3,117)	(136,445)	(43,945)	(6,517)	–	(190,024)
Net carrying amount	80,294	305,849	34,327	5,945	1,525	427,940

During the year, impairment provision was made in respect of assets that the directors believe the respective recoverable amount in the future is lower than the carrying amount.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005				
At 31 December 2004 and at 1 January 2005:				
Cost	256	466	429	1,151
Accumulated depreciation and impairment	(42)	(30)	(14)	(86)
Net carrying amount	214	436	415	1,065
At 1 January 2005, net of accumulated depreciation and impairment	214	436	415	1,065
Additions	4	84	–	88
Disposals	–	(18)	–	(18)
Depreciation provided during the year	(129)	(101)	(86)	(316)
Depreciation written back on disposals	–	3	–	3
Transfers	–	–	–	–
Exchange realignments	–	–	–	–
At 31 December 2005, net of accumulated depreciation and impairment	89	404	329	822
At 31 December 2005:				
Cost	260	532	429	1,221
Accumulated depreciation and impairment	(171)	(128)	(100)	(399)
Net carrying amount	89	404	329	822

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2004				
At 31 December 2003 and at 1 January 2004:				
Cost	–	–	–	–
Accumulated depreciation and impairment	–	–	–	–
Net carrying amount	–	–	–	–
At 1 January 2004, net of accumulated depreciation and impairment				
Additions	256	466	429	1,151
Disposals				
Depreciation written back on disposals	(42)	(30)	(14)	(86)
Depreciation provided during the year	–	–	–	–
Transfers	–	–	–	–
Exchange realignments	–	–	–	–
At 31 December 2004, net of accumulated depreciation and impairment	214	436	415	1,065
At 31 December 2004:				
Cost	256	466	429	1,151
Accumulated depreciation and impairment	(42)	(30)	(14)	(86)
Net carrying amount	214	436	415	1,065

18. PREPAID LAND LEASE PAYMENTS

	2005 HK$'000	2004 HK$'000
Carrying amount at 1 January 2005		
As previously reported	–	–
Effect of adopting HKAS 17 (note 3a)	11,736	7,254
As restated	11,736	7,254
Addition during the year	–	4,872
Recognised during the year	(548)	(390)
Exchange realignment	212	–
Carrying amount at 31 December 2005	11,400	11,736

As at 31 December 2005, the Group's land and buildings situated in Mainland China are held under long-term land use rights in the PRC.

19. INTANGIBLE ASSETS

Group

	Computer software HK$'000	Intellectual property HK$'000	Total HK$'000
31 December 2005:			
Cost at 1 January 2005, net of accumulated amortisation and impairment	7,670	26,197	33,867
Additions	4,509	–	4,509
Retirements and disposals	(24)	–	(24)
Amortisation provided during the year	(9,361)	(13,055)	(22,416)
Exchange realignment	(7)	(2,388)	(2,395)
At 31 December 2005	2,787	10,754	13,541
At 31 December 2005:			
Cost	14,184	23,809	37,993
Accumulated amortisation and impairment	(11,397)	(13,055)	(24,452)
Net carrying amount	2,787	10,754	13,541
31 December 2004:			
Cost at 1 January 2004, net of accumulated amortisation and impairment	3,689	–	3,689
Additions	3,856	–	3,856
Acquisition of a subsidiary	1,274	23,510	24,784
Amortisation provided during the year	(1,292)	–	(1,292)
Exchange realignment	143	2,687	2,830
At 31 December 2004	7,670	26,197	33,867
At 31 December 2004:			
Cost	10,182	26,197	36,379
Accumulated amortisation and impairment	(2,512)	–	(2,512)
Net carrying amount	7,670	26,197	33,867

19. INTANGIBLE ASSETS (continued)

Company

	Computer software HK$'000
31 December 2005:	
Cost at 1 January 2005, net of accumulated amortisation and impairment	**10**
Amortisation provided during the year	**(2)**
Exchange realignment	**(1)**
At 31 December 2005	**7**
At 31 December 2005:	
Cost	**10**
Accumulated amortisation and impairment	**(3)**
Net carrying amount	**7**
31 December 2004:	
Cost at 1 January 2004, net of accumulated amortisation and impairment	
Additions	11
Amortisation provided during the year	(1)
Exchange realignment	
At 31 December 2004	10
At 31 December 2004:	
Cost	11
Accumulated amortisation and impairment	(1)
Net carrying amount	10

20. NEGATIVE GOODWILL

The amount of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group:

	HK$'000
31 December 2004	
Cost:	
At 1 January 2004	–
Acquisition of subsidiaries	41,398
At 31 December 2004	41,398
Accumulated recognition as income	–
Recognised as income	(2,760)
Effect on HKFRS 3 (note 5(a))	(38,638)
At 31 December 2004	(41,398)
Net book value:	
At 31 December 2004	–

21. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**1,248,039**	1,185,912
Due from subsidiaries	**974,809**	841,470
Impairment on interests in subsidiaries	**(1,641,848)**	–
	581,000	2,027,382

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place and date of incorporation	Nominal value of issued and fully paid Share capital	Percentage of attributable equity interest Direct	Percentage of attributable equity interest Indirect	Principal Activities
TCL Mobile Communication (HK) Company Limited	Hong Kong 21 April 1999	HK$5,000,000	–	100%	Trading of mobile phones components
Huizhou TCL Mobile Communication Co., Ltd. (Notes(i))	The PRC 29 March 1999	US$29,800,000	–	100%	Manufacturing and sale of mobile phones
TCL Mobile Communication (Hohhot) Co., Ltd. (Notes (i))	The PRC 29 April 2002	RMB30,000,000	–	100%	Manufacturing and sale of mobile phones
T&A Mobile Phones Limited ("T&A") (formerly TCL & Alcatel Mobile Phones Limited)	Hong Kong 17 May 2004	HK$10,000,000	100%	–	Manufacturing and sale of mobile phones
T&A Mobile Phones SAS (formerly TCL & Alcatel Mobile Phones SAS)	France 1 January 2004	Euro87,540,000	–	100%	Development and distribution of mobile phones
T&A Mobile Phones SA de CV Limited	Mexico 24 May 2004	US$4,300	–	100%	Distribution of mobile phones
T&A Mobile Phones Suzhou Limited (formerly Alcatel Suzhou Telecommunications Co., Ltd) (Note(i))	The PRC 14 December 1998	US$28,000,000	–	100%	Development and distribution of mobile phones
T&A Mobile Phones International Limited	Hong Kong 11 May 2005	HK$1	–	100%	Development and distribution of mobile phones
T&A Mobile Phones Europe SAS (formerly TCL & Alcatel Mobile Phones Europe SAS)	France 30 August 2005	Euro40,000	–	100%	Distribution of mobile phones

Note:

(i) This is a wholly foreign owned enterprise.

On 11 May 2005, the Company entered into the Framework Agreement with Alcatel Participation, pursuant to which the Company to agreed to acquire all Alcatel Participation's shares in T&A Mobile Phones Limited ("T&A"), representing 45% of the share capital of T&A, in exchange for 141.375.000 Shares, representing 5% of the then issued share capital of the Company. The transaction was completed on 18 July 2005.

The above table lists all 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.

22. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**455,366**	664,590
Work in progress	**20,015**	62,510
Finished goods	**411,676**	525,374
	887,057	1,252,474
Provision against inventory obsolescence and net realized value	**(177,778)**	(220,657)
	709,279	1,031,817

23. TRADE RECEIVABLES

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 1 month	**939,808**	578,002
1 to 2 months	**66,109**	433,951
2 to 3 months	**44,197**	27,385
Over 3 months	**121,006**	182,630
	1,171,120	1,221,968
Impairment loss of trade receivables	**(44,057)**	(11,448)
	1,127,063	1,210,520

Included in the total provision for doubtful debts, an amount of HK$34,569,000 was made for a customer operating in the PRC.

24. FACTORED TRADE RECEIVABLES

At 31 December 2005, a subsidiary of the Group factored trade receivables of HK$106,981,000 to a bank on a without-recourse basis for cash. As the subsidiary of the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of the Group's trade receivables have been accounted for as liabilities in the consolidated balance sheet.

25. PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**405,755**	2,005,683	**3,078**	2,492
Pledged bank deposits	**54,317**	11,373	**–**	–
	460,072	2,017,056	**3,078**	2,492
Less: Pledged deposits:				
– for factored trade receivables (note 24)	**18,870**	–	**–**	–
– for the discount of notes receivable	**35,447**	–	**–**	–
– for notes issued	**–**	11,373	**–**	–
Cash and cash equivalents	**405,755**	2,005,683	**3,078**	2,492

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$94,612,000 (2004: HK$665,992,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

26. INTEREST BEARING BANK BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank borrowings, wholly repayable within one year:		
Secured	**13,739**	175,300
Unsecured	**144,095**	–
	157,834	175,300

(a) The Group's secured bank borrowings are trust receipt loan which bear interest rate of 4.15% per annum.

(b) The Group's unsecured borrowings are bank advances in respect of the discounted commercial notes. Such bank advances are guaranteed by TCL Corporate, the ultimate holding company of the Company.

27. TRADE AND NOTES PAYABLES

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

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 6 months	**1,690,543**	1,866,416	**3,330**	38,218
7 to 12 months	**42,248**	1,124	**–**	–
More than 1 year	**7,819**	10,173	**–**	–
	1,740,610	1,877,713	**3,330**	38,218

Included in trade and notes payables are notes payables of HK$367,030,000 (2004: HK$107,568,000), which are secured by the no pledge of deposits (2004: 11,373,000).

28. PROVISION FOR WARRANTIES

The movement of provision for warranties during the year is summarised as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**143,248**	12,755
Acquisition of subsidiaries	**–**	143,416
Provision	**156,470**	88,472
Utilized	**(179,052)**	(112,574)
Exchange difference	**(12,372)**	11,179
At end of year	**108,294**	143,248

The Group generally provides one to two years warranty to its customers on all products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and return. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year, the provision of warranties was not discounted, as the effect of discounting was not material.

29. CONVERTIBLE NOTES

On 11 May 2005, the Company entered into the subscription agreement with TCL Corporation, its ultimate controlling shareholder, for the issue of an aggregate of Euro 20,000,000 principal amount equivalent to HK$185,100,000) of 3% Convertible Notes ("CN") to TCL Corporation. The CN was issued on 29 July 2005. As at the balance sheet date, there was no movement in the number of these CN. The CN has a term of 3 years and TCL Corporation has the right to convert the CN at the conversion price of HK$0.58175 per share in whole or in part in the principal amount into ordinary shares in amounts of not less than HK$10,000,000 on each conversion. Subsequent to the open offer completed on 27 February 2006, the conversion price of CN is adjusted to HK$0.528324 per share.

The Company has the option to redeem, in whole or any part, the CN at 100% of their principal amount plus interest accrued to but excluding the date of redemption after 24 months from the Issue Date.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholder's equity.

The net proceeds received from the issue of the convertible notes have been split into the liability and equity components, as follows:

	2005 HK$'000
Nominal value of convertible note issued during the year	**185,100**
Equity component	**(19,430)**
Liability component at the issuance date	**165,670**
Interest expense	**2,373**
Liability component at 31 December	**168,043**

30. RETIREMENT INDEMNITIES

Retirement indemnities in respect of the defined benefits scheme plan for the year ended 31 December 2005 amounted to HK$908,000 (2004: HK$45,030,000).

	Group	
	2005 HK$'000	2004 HK$'000
Present value of fund obligation	**908**	45,030
Unrealized actuarial losses	**–**	–
Retirement Indemnities	**908**	45,030

30. RETIREMENT INDEMNITIES (continued)

Movement of Retirement Indemnities is as follow:

	Group	
	2005	2004
	HK$'000	HK$'000
Balance beginning of year	**45,030**	–
Acquisition of subsidiaries	**–**	37,418
Benefit expenses (reversed)/recognized in the consolidated results (note 10)	**(40,349)**	3,098
Exchange realignment	**(3,773)**	4,514
Balance end of year	**908**	45,030

The Group does not have any unfunded obligations.

The main assumptions used in the retirement indemnity computation for the defined benefit plan are as follows:

- Discount rate: 3.8%
- Future salary increase: 5% per annum

31. LONG SERVICE MEDALS

T&A Mobile Phones SAS provides for the probable future long service medals expected to be made to employees. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to T&A Mobile Phones SAS to the balance sheet date.

32. DEFERRED TAX ASSETS

Group:

	2005 Product warranty provision HK$'000	Provision for obsolete stock HK$'000	Impairment for fixed assets HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2005	**9,445**	**4,524**	**242**	**419**	**14,630**
Exchange realignment	**(61)**	**–**	**–**	**–**	**(61)**
Deferred tax charged to income statement during the year (note 13)	**(5,754)**	**–**	**–**	**–**	**(5,754)**
Net deferred tax assets at 31 December 2005	**3,630**	**4,524**	**242**	**419**	**8,815**

At 31 December 2005, there was no significant unrecognised deferred tax liability (2004:Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

	2004 Product warranty provision HK$'000	Provision for obsolete stock HK$'000	Impairment for fixed assets HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2004	957	4,524	242	442	6,165
Acquisition of subsidiaries	7,143	–	–	–	7,143
Exchange realignment	1	–	–	–	1
Deferred tax credited/(charged) to income statement during the year (note 13)	1,344	–	–	(23)	1,321
Net deferred tax assets at 31 December 2004	9,445	4,524	242	419	14,630

33. SHARE CAPITAL

Shares	2005 HK$'000	2004 HK$'000
Authorised:		
5,000,000,000 (2004: 5,000,000,000) ordinary shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid or credited as fully paid:		
2,968,875,000 (2004: 2,827,500,000) ordinary shares of HK$0.10 each	**296,888**	282,750

The following changes in the Company's authorised and issued share capital took place during the year:

On 11 May 2005, the Company entered into the Framework Agreement with Alcatel Participation, pursuant to which the Company agreed to acquire all Alcatel Participation's shares in T&A, representing 45% of the share capital of T&A in exchange for 141,375,000 shares of the Company, representing 5% of the then issued share capital of the Company as of this report date. The transaction was completed on 18 July 2005.

A summary of the transactions with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of share in issue	Issued shares capital HK$'000	Share premium account HK$'000	Total HK$'000
Shares allotted and issued nil paid following incorporation	1	–	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of Communication Holdings	408	–	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of Communication BVI	359	–	–	–
Shares issued as consideration for the acquisition of the entire issued share capital of Alpha Alliance	232	–	–	–
Shares issued as consideration for the acquisition of the entitlement of dividends declared by TCL Mobile	1,809,599,360	180,960	699,857	880,817
Shares issued as consideration for the cash contribution by TCL Industries	1,017,899,640	101,790	393,618	495,408
At 31 December 2004 and 1 January 2005	2,827,500,000	282,750	1,093,475	1,376,225
Shares allotted and issued pursuant to the Framework Agreement	141,375,000	14,138	47,360	61,498
At 31 December 2005	2,968,875,000	296,888	1,140,835	1,437,723

On 18 July 2005, pursuant to the Framework Agreement, The Company issued 141,375,000 shares of the Company to Alcatel Participation for acquisition of 45% shareholding interest of T&A. Detail of the transaction is stated in Note 19.

On 27 February 2006, the Company completed the Open Offer under which 2,968,875,000 new shares of the Company were issued and allotted.

34. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors, including independent non-executive directors, or employees, holders of any securities, business or joint venture partners, contractors, agents or representatives, persons or entities that provide research, development or technological support or any advisory, consultancy, professional services for the business of the Group, investors, vendors, suppliers, developers or licensors and customers, licensees, wholesalers, retailers, traders or distributors of goods or services of the Group, the Company's controlling shareholders or companies controlled by a Company's controlling shareholder. The Scheme became effective on 20 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 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 after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

34. SHARE OPTION SCHEME

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Price of Company's shares*** At grant date of options HK$	Price of Company's shares*** Immediately before the exercise date HK$	Price of Company's shares*** At exercise date of options HK$
Directors:												
Mr. LI Dong Sheng	–	5,000,000	–	–	–	5,000,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. WONG Toe Yeung	–	5,000,000	–	–	–	5,000,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. DU Xiaopeng	–	3,200,000	–	–	–	3,200,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. YUAN Xin Cheng	–	3,000,000	–	–	–	3,000,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Dr. LIU Fei	–	1,600,000	–	–	–	1,600,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. YAN Yong, Vincent	–	1,050,000	–	–	–	1,050,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Dr. GUO Aiping	–	950,000	–	–	–	950,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. SHI Cuiming	–	300,000	–	–	–	300,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. WANG Chongju	–	300,000	–	–	–	300,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Mr. LAU Siu Ki, Kevin	–	300,000	–	–	–	300,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
		20,700,000	–	–	–	20,700,000						
Employees	–	109,750,000	–	–	(8,125,000)	101,625,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
Those who have contributed or may contribute to the group	–	46,770,000	–	–	–	46,770,000	31 May 2005	31 May 2005 to 30 Nov 2008	0.415	0.41	N/A	N/A
	–	156,520,000	–		(8,125,000)	148,395,000						
	–	177,220,000	–	–	(8,125,000)	169,095,000						

34. SHARE OPTION SCHEME (continued)

Notes to the reconciliation of share options outstanding during the year

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

** *As disclosed in note 40 (a), as a result of the open offer of the Company, the share options outstanding as at 27 February 2006, the date of completion of the open offer, have been adjusted in term of their exercise price (from HK$0.415 to HK$0.3804 per share).*

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

At the balance sheet date, the Company had 169,095,000 share options outstanding under the Scheme.

Subsequent to the balance sheet date, on 16 January 2006 122,092,000 share options were granted to the directors and employees of the Company and the Group. 41,259,000 share options were granted to those who have contributed or may contribute to the Group. Such Share Options were granted at an exercise price of HK$0.23 per share (before adjustment on 6 February 2006). Share price of the Company at grant date was HK$0.23 per share.

One-third of such share options are exercisable after the expiry of 6 month, from the date of grant, a further one-third is exercisable after the expiry of 6 months from the date of grant, a further one-third is exercisable after the expiry of 12 months from the date of grant and the remaining one-third is exercisable after the expiry of 18 months from the date of grant, up to 15 July 2008.

At the date of approval of these financial statements, the Company had 322,446,000 share options outstanding under the Scheme, which represented approximately 5.6% of the Company's shares in issue as at that date.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 63 and 64 of the financial statements.

The Group's capital reserve arose mainly from the capital injection.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries established in the PRC should be transferred to the statutory reserves which are restricted as to use.

(b) Company

	Contributed surplus HK$'000	Share premium account HK$'000	Share based payment HK$'000	Convertible note HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	669,907	1,093,475	–	–	(62,934)	1,700,448
Issue of new shares for acquisition of 45% shareholding interest of T&A from Alcatel Participants	–	47,360	–	–	–	47,360
Equity settled share options arrangements	–	–	7,737	–	–	7,737
Issue of convertible note	–	–		19,430	–	19,430
Loss for the year	–				(1,665,843)	(1,665,843)
At 31 December 2005	669,907	1,140,835	7,737	19,430	(1,728,777)	109,132

36. DISPOSAL OF A SUBSIDIARY

	Notes	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Fixed assets		–	21
Cash and bank balances		–	11,488
Other receivables		–	134
Other payables and accruals		–	(4,930)
Amounts due to related companies		–	(7,681)
		–	(968)
Gain on disposal of a subsidiary	9	–	1,268
		–	300
Satisfied by:			
Cash		–	300

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	–	300
Cash and cash equivalents disposed of	–	(11,488)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	(11,188)

37. CONTINGENT LIABILITIES

(i) As at 31 December 2005, contingent liabilities in respect of discounted notes and endorsed notes with recourse not provided for in the financial statements were as follows:

	2005 HK$'000	2004 HK$'000
Notes discounted or endorsed with recourse	–	48,657

(ii) One of the Group' subsidiaries, T&A Mobile Phones Suzhou Limited (T&A Suzhou) was involved in a patent infringement litigation brought by Hubin, Huxuanhua and Dalian Hanpu Applied Technology Co., Ltd. (the "plaintiff") in March 2001. In May 2002, the PRC trial court rendered civil judgement in favour of T&A Suzhou with no damages or expenses to be borne by them. In the same month, the plaintiff appealed to the high Court and up to date, the appellate proceeding is still in progress.

According to the legal letter and the opinion from the engaged lawyer, it is very likely for the appellate court to render judgement in favor of T&A Suzhou again. Accordingly, no provision was made for such litigation in the financial statement.

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff dormitories under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**22,723**	41,455	**2,546**	1,003
In the second to fifth years, inclusive	**21,984**	59,364	**3,458**	523
Over five years	**–**	45,572	**–**	–
	44,707	146,391	**6,004**	1,526

39. COMMITMENTS

In addition to the operating lease commitments detailed above, the Group had the following capital commitments for the procurement of production facilities of HK$18,111,000 and the acquisition of an associate of HK$11,630,000 (note 42(c)) at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted, but not provided for	**29,741**	23,845	**–**	–

40. RELATED PARTIES TRANSACTIONS

(a) Transaction with related parties

	2005 HK$'000	2004 HK$'000
Transaction with ultimate controlling shareholder		
Brand name management fee/TCL Brand Common Fund	**10,155**	27,816
Interest expenses	**10,544**	12,636
Issuance of Convertible note	**185,100**	–
Interest on Convertible note	**2,373**	–
Short-term loan obtained	**3,514,194**	4,068,383
Purchases of raw material	**–**	2,400,354
Transactions with subsidiaries of ultimate controlling shareholder		
Purchases of raw materials	**1,456,630**	601,188
Fund advanced	**38,425**	7,880,342
Interest Income	**–**	871
Master manufacturing service	**3,463**	–
Rental charges	**2,380**	2,625
Sales of finished goods	**1,947**	19,822
Transactions with a company in which a director of the Company is a shareholder		
Consultancy fee	**975**	990
Transactions with subsidiaries of the Group's minority shareholder		
Agency services obtained	**–**	1,960
Administrative and management services obtained	**159,125**	83,802
Sales support service obtained	**37,573**	16,703

During the year, the Company entered into the Framework Agreement with Alcatel Participation. The transaction is summarised in note 21.

(b) **Outstanding balance with related parties**

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

	Due from related companies		Due to related companies	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Ultimate controlling Shareholder	**–**	46,381	**83,893**	–
Subsidiaries of ultimate controlling shareholder	**347,750**	2,378	**487,493**	68,310
Subsidiaries of the Group's minority shareholder	**–**	2,071	**–**	45,899
	347,750	50,830	**571,386**	114,209

* *The amounts due are mainly trading balances, and are unsecured, interest free and have no fixed terms of repayment.*

Particulars of the maximum outstanding balance of amounts due from related companies are as follows:

	Year ended 31 December	
	2005	2004
	HK$'000	HK$'000
TCL 通訊設備（國際）有限公司("TCL Communication (Int'l) Ltd.") *	**–**	72
TCL Integrated Marketing Inc. *	**116**	234
TCL Communication Equipment (Huizhou) Co., Ltd*	**4,513**	2,071
TCL Corporation*	**345,658**	59,058

* *The balances are mainly trading balances, and are unsecured, interest free and have no fixed terms of repayment.*

(c) **Compensation of key management personnel of the Group**

	2005	2004
	HK$'000	HK$'000
Short term employee benefits	**12,709**	3,982
Post-employment benefits	**498**	120
Share-based payment	**3,045**	–
Total compensation paid to key management personnel	**16,252**	4,102

41. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2005, the bank loans of the Group and the Company are a combination of fixed and floating rate debts. The Group and the Company have no significant concentration of interest rate risk.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in Euro, USD and RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

Credit risk

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and trade receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is minimal.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interestbearing loans.

42. POST BALANCE SHEET EVENTS

(a) On 22 December 2005, the Company proposed to issue 2,968,875,000 new shares ("Offer Shares") at a price of HK$0.2 per Offer Share by way of Open Offer, on the basis of one Offer Share for every one share of the Company held on 6 February 2006. The Open Offer was completed on 27 February 2006 of which the Company obtained a net proceeds of approximately HK$587,800,000. As a result of the completion of the Open Offer, the conversion price of the Convertible Notes had been adjusted from HK$0.58175 per share to HK$0.528324 per share in accordance with the relevant terms of Convertible Notes and accordingly the Convertible Notes will now entitle the holder thereof to convert them into up to 350,353,192 shares (instead of 318,177,911 shares as previously envisaged). Further, the exercise price and the number of the share options ("Share Options") granted under the share option scheme adopted by the Company on 13 September 2004 ("Share Option Scheme") and outstanding as at 27 February 2006 has also been adjusted in accordance with the terms of the Share Option Scheme and the relevant requirements of the Listing Rules as follows:

	Before the Open Offer		After the Open Offer	
Grant Date	Exercise per share	No. of outstanding Share Options	Adjusted exercise price per share	Adjusted no. of outstanding Share Options
31 May 2006	HK$0.415	120,570,000	HK$0.3804	131,531,019
16 January 2006	HK$0.230	162,180,000	HK$0.2108	176,923,784
Total:		282,750,000		308,454,803

For further details of the adjustments, please refer to the Company's announcement dated 28 February 2006.

42. POST BALANCE SHEET EVENTS (continued)

(b) On 9 March 2006, TCL Corporation ("TCL Corp.") (the ultimate controlling shareholder of the Company) entered into the Investment Agreement with Mobile Hohhot (an indirect wholly-owned subsidiary of the Company) in relation to the establishment of the Finance Company. The Finance Company is owned as to 62% by TCL Corp., 14% by an indirect wholly-owned subsidiary of TCL Multimedia Technology Holdings Limited, 4% by Mobile Hohhot and 20% by The Bank of East Asia, Limited. The Finance Company will be a connected person of the Company. Further, the Company will enter into a Financial Services Framework Agreement with TCL Corp. after the establishment of the Finance Company. Pursuant to the Financial Services Framework Agreement, the subsidiaries of the Company may from time to time utilize the financial services which may be provided by the Finance Company including the deposit services, the services of money lending and other financing and financial services.

(c) Pursuant to the Joint Venture Agreement dated 19 December 2005, the Company agreed to contribute US$1.5 million in cash for 153,499 shares in JRD Communication Inc. ("JRDC"), representing approximately 9.45% in JRDC.

(d) On 31 March 2006, the Company entered into the Share Purchase Agreement with Power Century, pursuant to which the Company agreed to purchase from Power Century 771,500 shares of JRDC, representing 38.58% equity interest in JRDC, at a cash consideration of US$12.3 million (equivalent to approximately HK$95.33 million). JRDC was established by the Company and Power Century under the Joint Venture Agreement dated 19 December 2005 as a joint venture company which was initially held by the Company and Power Century as to approximately 9.45% and approximately 90.55% respectively. Immediately after the completion of the Share Purchase Agreement, the shareholding of the Company and Power Century in JRDC was changed to approximately 46.25% and 35% respectively. The consideration payable by the Company under the Share Purchase Agreement was financed by the proceeds from the open offer of the Company completed on 27 February 2006.

43. COMPARATIVE AMOUNTS

As further explained in notes 3 and 4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform to the current year's presentation.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 27 April 2006.