NOTES TO THE ACCOUNTS

1 GENERAL INFORMATION

TPV Technology Limited (the "Company") and its subsidiaries (together the "Group") designs, manufactures and sells computer monitors and flat TV products. The Group manufactures mainly in the People's Republic of China ("PRC") and sells to Europe, North and South America, the PRC and other Asian countries.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The shares of the Company are primarily listed on The Stock Exchange of Hong Kong Limited and secondarily listed on the Singapore Exchange Securities Trading Limited.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, investment properties, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

New standards, amendments to existing standards and interpretations:

(a) In 2006, the Group adopted the following amendments to existing standards and interpretation that are effective in 2006 and relevant to the Group's operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these amendments to existing standards and interpretation had no material impact on the Group for the year ended 31st December 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) The following new standard, amendments to existing standards and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 1 (Amendment) and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
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

(c) The following new standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2007. The Group has started to consider their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these new standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these new standards and interpretations to existing standards, if applicable, in the accounts for the year ended 31st December 2006.

HKFRS 7	Financial Instruments: Disclosures (effective for annual periods beginning on or after 1st January 2007)
HKFRS 8	Operating Segments (effective for annual periods beginning on or after 1st January 2009)
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1st March 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June 2006)
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006)
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st March 2007)
HK(IFRIC)-Int 12	Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008)

The Group plans to adopt the above new standards and interpretations to existing standards when they become effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.8).

The Group's share of its associated companies' post-acquisition profits or losses is recognized in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealized gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation difference resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sales financial asset fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment, other than freehold land, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation of property, plant and equipment, other than freehold land, is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Leasehold improvements	20 years
Machinery and equipment	5 to 10 years
Moulds	2 years
Electrical appliances and equipment	3 to 5 years
Transportation equipment	3 to 5 years
Furniture, fixtures and miscellaneous equipment	1 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the profit and loss account.

2.6 Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost. Cost, includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 2.5 above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Changes in fair values are recognized in the profit and loss account.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies and is tested annually for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks

Trademarks are shown at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (not more than 15 years).

2.9 Impairment of investments in subsidiaries, associated companies and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.13).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category and dividend income from financial assets through profit or loss are recognized in the profit and loss account in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the profit and loss account as 'gains and losses from investment securities'. Dividends on available-for-sale equity instruments are recognized in the profit and loss account when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit and loss account) is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.11 Accounting for derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Changes in the fair value of the derivative instruments that do not qualify for hedge accounting are recognized immediately in the profit and loss account within 'other gains/(losses)'.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE ACCOUNTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the profit and loss account within 'administrative expenses'.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The fair value of the conversion option is recognized and included in shareholders' equity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) Pension obligations

The Group participates in a number of defined contribution schemes in the PRC, Hong Kong, Taiwan and overseas countries, the assets of which are held separately from those of the Group in independently administered funds. Contributions are made to these schemes based on a certain percentage of the employees' salaries.

One of the Group's subsidiaries in Taiwan also participates in a defined benefit pension plan in accordance with the local statutory regulations. Under this plan, pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of an independent actuary who carries out a full valuation of the plan each year. The pension obligation is measured at the present value of the estimated future cash outflows using the rate of return of high-quality fixed-income investments in Taiwan which have the terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are recognized over the average remaining service lives of employees. Past service costs are recognized as an expense on a straight-line basis over the vesting period.

The Group's contributions to defined contribution schemes and defined benefit pension plan are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the profit and loss account with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.20 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provision for warranties is provided based on management's estimates of the repair costs per unit of product manufactured in the relevant years and is calculated based on past history of the level of repairs and replacements. Actual warranty expenditure is charged against the provision as incurred.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

(c) Sales of services

Technical support service fee income is recognized based on the units of products exported by the counter-party during the relevant periods.

(d) Rental income

Operating lease rental income is recognized on a straight-line basis over the lease periods.

2.22 Government grants

Government grants are subsidies on export of computer monitors and flat TV products and assistance on certain projects approved by the relevant governments. Government grants are recognized at their fair values when there is a reasonable assurance that the grants will be received and the Group complies with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized in the consolidated profit and loss account on a straight-line basis over the expected useful lives of the related assets.

2.23 Research and development costs

Research costs are expensed as incurred.

Development costs relating to the design and testing of new or improved products and reassessment of production procedures for cost efficiency purposes are expensed as incurred as the directors consider that the related economic benefits generated from these developments have very limited useful lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

2.25 Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognize liabilities for financial guarantee at inception, but perform a liability adequacy test at each reporting date by comparing its net liability regarding the financial guarantee with the amount that would be required if the financial guarantee would result in a present legal or constructive obligation. If the liability is less than its present legal or constructive obligation amount, the entire difference is recognized in the profit and loss account immediately.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

2.27 Comparatives

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

3 FINANCIAL RISK FACTORS

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

3 FINANCIAL RISK FACTORS (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi. The Group aims to reduce its currency exposures by using foreign exchange forward contracts.

(ii) Price risk

The Group is exposed to commodity price risk.

Commodity price risk arises because the price of panel, a key component of monitors, is highly dependent on its demand and supply and might fluctuate widely. In order to minimize the risk, the Group keeps minimal stock on hand and only places orders when panels are needed for production.

(b) Credit risk

The Group has significant concentrations of credit risk. To minimize the risk, the Group regularly reviews the credit terms and credit limits granted to individual customers. There are policies in place to ensure that sales are made to customers with satisfactory credit record.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities. The Group aims to maintain flexibility in funding by keeping credit lines available at all time.

(d) Interest rate risk

The Group's interest rate risk mainly arises from bank borrowings. The Group enters into debt obligations to support normal operations, including capital expenditures and working capital requirements. To minimize its interest expenses, the Group entered into interest rate swaps from time to time to hedge against the fluctuation in interest rates.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices on the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

3 FINANCIAL RISK FACTORS (Continued)

3.2 Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debts. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of foreign exchange forward contracts is determined using forward exchange market rates at balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Taxes

The Group is subject to various taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences would impact the current tax and deferred tax provisions in the period in which such determination is made.

(b) Warranty provision

The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily ranging from twelve to thirty-six months. Significant judgement is required in determining the warranty expenses. The Group estimates the warranty expenses based on the actual repair and replacement costs incurred for the products sold in the last thirty-six months. Where the warranty expenses incurred are different from the original provision, such difference would impact the profit and loss account in the period in which the additional warranty expenses are incurred.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Pending litigations

The Group had certain pending litigations as at the balance sheet date. Significant judgement is required in determining whether it is more likely than not that an outflow of resources will be required to settle the pending litigations in which case a provision for the potential litigation expenses is recognized.

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates.

(e) Employee benefits – share-based payments

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to vest. Where the outcome of the number of options that are vested is different, such difference will impact the profit and loss account in the subsequent remaining vesting period of the relevant share options.

(f) Estimation of provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectibility of trade and other receivables. Provisions for impairment are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amount of receivables and doubtful debt expenses in the period in which such estimate is changed.

(g) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at each balance sheet date.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the design, manufacture and sale of computer monitors and flat TV products. Revenues recognized during the year were as follows:

	2006 US$'000	2005 US$'000
Turnover		
Sales of goods to third parties and related companies (Note 40)	**7,176,294**	5,053,953
Other income		
Export incentives received (Note (a))	**5,356**	2,636
Technical support service fee income (Note (b))	**–**	3,595
Localization incentives received (Note (c))	**18,509**	9,914
Fiscal refund received (Note (d))	**5,494**	3,496
Rental income, net of direct outgoings	**1,139**	160
Miscellaneous income	**6,414**	3,958
	36,912	23,759
	7,213,206	5,077,712

Notes:

(a) Export incentives were received from the municipal governments of Fuqing and Wuhan, the PRC.

(b) Technical support service fees were income for providing technical support service to a then associated company (Note 40).

(c) Localization incentives were received from the government of Brazil for the localization of production in one of its special economic zones. Pursuant to the law of Brazil, this amount of localization incentives has been directly credited to the reserve account of the local subsidiary. In preparing these consolidated accounts, this amount of localization incentives was recognized as an income in current year and the same amount was appropriated to reserves as at 31st December 2006 (Note 27).

(d) Fiscal refund was received from the municipal finance bureaus of Fuqing and Wuhan, the PRC.

Primary reporting format – business segments

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

As at 31st December 2006, the Group is organized on a worldwide basis into three main business segments:

Manufacturing and sales of:
(1) LCD monitors;
(2) LCD TVs; and
(3) CRT monitors

Others mainly comprise the sales of CRT TVs, Plasma TVs, chassis, spare parts, CKD/SKD and other general corporate items. Neither of these constitutes a separately reportable segment.

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	For the year ended 31st December 2006				
	LCD monitors US$'000	LCD TVs US$'000	CRT monitors US$'000	Others US$'000	Total US$'000
Turnover	4,956,754	1,032,178	885,683	301,679	7,176,294
Cost of goods sold	(4,718,147)	(1,001,093)	(800,272)	(297,197)	(6,816,709)
Other income excluding export incentives received, fiscal refund received and localization incentives received	5,380	546	987	272	7,185
Operating expenses	(88,042)	(34,929)	(59,100)	(5,797)	(187,868)
Segment results	155,945	(3,298)	27,298	(1,043)	178,902
Export incentives received					5,356
Fiscal refund received					5,494
Localization incentives received					18,509
Operating profit					208,261
Finance costs – net					(33,055)
Share of profits less losses of associated companies					464
Profit before taxation					175,670
Taxation					(21,311)
Profit for the year					154,359
Other information:					
Capital expenditure	62,719	13,494	9,953	1,806	87,972
Depreciation	29,186	6,108	8,260	1,378	44,932
Amortization of land use rights	–	–	–	250	250
Amortization of intangible assets	–	–	–	53	53

	31st December 2006				
Balance sheet					
Segment assets	2,315,473	355,327	223,089	53,538	2,947,427
Interests in associated companies					8,034
Unallocated assets					105,395
Total assets					3,060,856
Segment liabilities	(1,153,310)	(178,990)	(179,003)	(16,329)	(1,527,632)
Unallocated liabilities					(421,851)
Total liabilities					(1,949,483)

NOTES TO THE ACCOUNTS

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	For the year ended 31st December 2005				
	LCD monitors US$'000	LCD TVs US$'000	CRT monitors US$'000	Others US$'000	Total US$'000
Turnover	3,703,751	251,294	892,445	206,463	5,053,953
Cost of goods sold	(3,508,885)	(242,385)	(812,471)	(200,967)	(4,764,708)
Other income excluding export incentives received, fiscal refund received and localization incentives received	5,782	260	1,399	272	7,713
Operating expenses	(74,334)	(8,638)	(64,763)	(2,716)	(150,451)
Segment results	126,314	531	16,610	3,052	146,507
Export incentives received					2,636
Fiscal refund received					3,496
Localization incentives received					9,914
Operating profit					162,553
Finance costs – net					(13,025)
Share of profits less losses of associated companies					7,935
Profit before taxation					157,463
Taxation					(6,552)
Profit for the year					150,911
Other information:					
Capital expenditure	91,438	7,968	31,263	4,745	135,414
Depreciation	20,263	1,676	5,001	690	27,630
Amortization of land use rights	–	–	–	64	64
Amortization of intangible assets	–	–	–	53	53

	31st December 2005				
Balance sheet					
Segment assets	2,125,839	135,385	327,882	20,423	2,609,529
Interests in associated companies					7,570
Unallocated assets					437,125
Total assets					3,054,224
Segment liabilities	(1,278,274)	(50,000)	(266,253)	(13,868)	(1,608,395)
Unallocated liabilities					(580,264)
Total liabilities					(2,188,659)

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

Segment assets consist primarily of intangible assets, property, plant and equipment, land use rights, investment properties, inventories, trade receivables, deposits, prepayments and other receivables and tax recoverable. They exclude deferred tax assets, available-for-sale financial assets, other financial assets at fair value through profit or loss, pledged bank deposits, and bank balances and cash.

Segment liabilities mainly comprise trade payables, other payables and accruals, taxation payable and warranty provisions. They exclude borrowings and derivative financial instruments.

Capital expenditure comprises additions to property, plant and equipment (Note 15) and land use rights (Note 16), including additions resulting from acquisitions through business combinations.

Secondary reporting format – geographical segments

	For the year ended 31st December 2006			
	Turnover US$'000	Operating profit US$'000	Total assets US$'000	Capital expenditure US$'000
Geographical segments:				
Europe	**1,804,154**	**48,572**	**32,957**	**834**
North America	**2,322,156**	**72,545**	**509,051**	**50**
South America	**252,102**	**19,143**	**119,469**	**3,361**
Africa	**47,993**	**938**	**–**	**–**
Australia	**128,006**	**2,681**	**299**	**–**
The PRC	**1,662,220**	**56,647**	**962,361**	**79,005**
Rest of world	**959,663**	**7,735**	**1,428,685**	**4,722**
	7,176,294	**208,261**	**3,052,822**	**87,972**
Interests in associated companies			**8,034**	
Total assets			**3,060,856**	

5 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments (Continued)

	For the year ended 31st December 2005			
	Turnover US$'000	Operating profit US$'000	Total assets US$'000	Capital expenditure US$'000
Geographical segments:				
Europe	1,405,262	42,513	47,017	1,123
North America	1,550,550	35,862	322,815	31
South America	125,445	7,991	66,715	2,948
Africa	27,447	884	–	–
Australia	90,453	2,297	389	–
The PRC	1,111,778	60,864	1,180,918	123,871
Rest of world	743,018	12,142	1,428,800	7,441
	5,053,953	162,553	3,046,654	135,414
Interests in associated companies			7,570	
Total assets			3,054,224	

Sales were categorized according to the final destination of shipment. There were no inter-segment sales.

Assets and capital expenditure were categorized according to the country where the assets were located as at the balance sheet date.

6 OTHER GAINS – NET

	2006 US$'000	2005 US$'000
Realized and unrealized gain on foreign exchange forward contracts – net	**10,589**	11,717
Realized and unrealized loss on interest rate swaps – net	**(2,934)**	–
Fair value loss on other financial assets at fair value through profit or loss	**(393)**	–
Gain on disposal of other financial assets at fair value through profit and loss	**24**	–
	7,286	11,717

NOTES TO THE ACCOUNTS

7 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2006 US$'000	2005 US$'000
Crediting		
Net exchange gains (included in administrative expenses)	**21,159**	1,507
Write-back of provision for bad and doubtful debts	**67**	1,614
Reversal of write-down of inventories to net realizable value	**–**	5,517
Charging		
Employee benefit expense (including directors' emoluments) (Note 8)	**129,498**	79,554
Depreciation of property, plant and equipment	**44,932**	27,630
Amortization of land use rights (included in cost of goods sold)	**250**	64
Operating lease rental for land and buildings and machinery	**2,020**	1,239
Auditors' remuneration	**1,237**	1,126
Amortization of intangible assets (included in administrative expenses)	**53**	53
Provision for warranty (Note 32)	**57,040**	31,464
Loss on disposal of property, plant and equipment	**602**	373
Write-down of inventories to net realizable value	**201**	–

8 EMPLOYEE BENEFIT EXPENSE

	2006 US$'000	2005 US$'000
Wages, salaries and welfare	**125,422**	73,089
Unutilized annual leave	**60**	69
Share options granted to directors and employees	**1,825**	4,749
Pension costs – defined contribution plans	**1,563**	846
Pension costs – defined benefit plan (Note 30)	**628**	801
	129,498	79,554

8 EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2006 is set out below:

Name of director	Fees US$'000	Basic salaries, housing allowances, share options, other allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Total US$'000
Dr Hsuan, Jason	–	287[1]	237	524
Mr Houng Yu-Te	–	220[1]	97	317
Mr Maarten Jan de Vries	–	–	–	–
Mr Chang Yueh, David	–	–	–	–
Mr Chen Yanshun	–	32[1]	–	32
Mr Wang Dongsheng	–	16[1]	–	16
Mr Wang Yanjun	–	16[1]	–	16
Mr Chan Boon-Teong	40	–	–	40
Dr Ku Chia-Tai	31	–	–	31
Mr Wong Chi Keung	28	–	–	28

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of director	Fees US$'000	Basic salaries, housing allowances, share options, other allowances and benefits in kind US$'000	Discretionary bonuses US$'000	Total US$'000
Dr Hsuan, Jason	–	348[1]	239	587
Mr Houng Yu-Te	–	302[1]	79	381
Mr Djuhar, Johny	–	–	–	–
Mr Maarten Jan de Vries	–	–	–	–
Mr Chang Yueh, David	–	–	–	–
Mr Chen Yanshun	–	36[1]	–	36
Mr Wang Dongsheng	–	72[1]	–	72
Mr Wang Yanjun	–	36[1]	–	36
Mr Chan Boon-Teong	35	–	–	35
Dr Ku Chia-Tai	33	–	–	33
Mr Wong Chi Keung	29	–	–	29
Mr Martin Vincent McHugh	–	–	–	–

1 Share based compensation was included in the amount, which is determined based on the fair value of the share options granted to the relevant Directors at the grant date and recognized over the vesting period.

NOTES TO THE ACCOUNTS

8 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: four) individuals during the year are as follows:

	2006 US$'000	2005 US$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**617**[1]	1,174[1]
Discretionary bonuses	**350**	411
	967	1,585

1 Share-based compensation was included in the amount, which was determined based on the fair value of the share options granted to the relevant individuals at the grant date and recognized over the vesting period.

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
HK$2,000,001 to HK$2,500,000 (equivalent to US$256,410 to US$320,513)	**1**	–
HK$2,500,001 to HK$3,000,000 (equivalent to US$320,513 to US$384,615)	**2**	–
HK$3,000,001 to HK$3,500,000 (equivalent to US$384,615 to US$448,718)	**–**	4

During the year, no director waived any emoluments and the Group had not paid any emoluments to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 FINANCE INCOME AND COSTS

	2006 US$'000	2005 US$'000
Interest expense on bank borrowings wholly repayable within five years	**28,535**	14,819
Interest expense on convertible bonds (Note 35)	**10,229**	3,410
	38,764	18,229
Interest income on short-term bank deposits	**(5,709)**	(5,204)
Finance costs – net	**33,055**	13,025

No borrowing costs were capitalized during the years ended 31st December 2006 and 2005.

10 TAXATION

No provision for Hong Kong profits tax were made as the Group had no estimated assessable profit generated in Hong Kong for the year (2005: Nil).

Taxation on overseas profits was calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries/places in which the Group operated.

A subsidiary, Top Victory Electronics (Fujian) Company Limited, which was established in an economic and technological development zone in the PRC, was subject to the PRC enterprise income tax rate of 15% under the tax regulations of the PRC. It enjoyed a further 5% reduction in the PRC enterprise income tax rate as its export sales exceeded 70% of the total sales in 2006.

Another subsidiary, TPV Electronics (Fujian) Company Limited, that was established in an economic and technological development zone in the PRC, was subject to the PRC enterprise income tax rate of 15% under the tax regulations of the PRC. Moreover, it was fully exempted from the PRC enterprise income tax in 2002 and 2003 and enjoyed a reduced tax rate of 7.5% in 2004, 2005 and 2006.

The amount of taxation charged to the consolidated profit and loss account represents:

	2006	2005
	US$'000	US$'000
Overseas taxation		
– current year	**13,336**	11,687
– over-provision in prior years	**(287)**	(2,600)
Deferred taxation (Note 29)	**8,262**	(2,535)
	21,311	6,552

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the principal place of business of the Group as follows:

	2006	2005
	US$'000	US$'000
Profit before taxation	**175,670**	157,463
Calculated at a taxation rate of 15% (2005: 15%)	**26,351**	23,619
Different taxation rates in other countries	**2,508**	70
Income not subject to taxation	**(7,335)**	(10,137)
Preferential tax rate in respect of tax holiday enjoyed by the PRC subsidiaries	**(7,766)**	(8,265)
Expenses not deductible for taxation purposes	**5,561**	3,865
Recognition of previously unrecognized temporary differences	**2,279**	–
Over-provision in prior years	**(287)**	(2,600)
Taxation charge	**21,311**	6,552

NOTES TO THE ACCOUNTS

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the accounts of the Company to the extent of approximately US$41,693,000 (2005: US$129,517,000).

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Profit attributable to equity holders of the Company (US$'000)	**151,760**	149,583
Weighted average number of ordinary shares in issue (thousands)	**1,901,656**	1,511,644
Basic earnings per share (US cents per share)	**7.98**	9.90

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Profit attributable to equity holders of the Company (US$'000)	**151,760**	149,583
Interest expense on convertible bonds (US$'000)	**10,229**	3,410
Profit used to determine diluted earnings per share (US$'000)	**161,989**	152,993
Weighted average number of ordinary shares in issue (thousands)	**1,901,656**	1,511,644
Adjustments for		
– assumed conversion of convertible bonds (thousands)	**336,824**	110,495
– share options (thousands)	**52,835**	34,166
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,291,315**	1,656,305
Diluted earnings per share (US cents per share)	**7.07**	9.24

13 DIVIDENDS

	2006 US$'000	2005 US$'000
Interim, paid, of US0.80 cent (2005: US0.72 cent) per ordinary share	**15,510**	12,238
Final, proposed, of US1.68 cents (2005: US2.00 cents) per ordinary share	**32,715**	38,244
	48,225	50,482

The directors proposed on 11th April 2007 a final dividend of US1.68 cents per share (2005: US2.00 cents) payable in cash to equity holders. The amount of 2006 proposed final dividend is based on 1,947,303,525 shares in issue as at 11th April 2007 (2005: 1,912,222,754 shares as at 3rd April 2006). This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2007.

14 INTANGIBLE ASSETS

		Group	
	Goodwill US$'000	Trademarks US$'000	Total US$'000
Year ended 31st December 2005			
Opening net book amount	4,825	480	5,305
Attributable to acquisition of subsidiaries	354,273	–	354,273
Amortization charge (Note (a))	–	(53)	(53)
Closing net book amount	359,098	427	359,525
At 31st December 2005			
Cost	359,098	800	359,898
Accumulated amortization	–	(373)	(373)
Net book amount	359,098	427	359,525
Year ended 31st December 2006			
Opening net book amount	359,098	427	359,525
Amortization charge (Note (a))	–	(53)	(53)
Closing net book amount	359,098	374	359,472
At 31st December 2006			
Cost	359,098	800	359,898
Accumulated amortization	–	(426)	(426)
Net book amount	359,098	374	359,472

NOTES TO THE ACCOUNTS

14 INTANGIBLE ASSETS (Continued)

	Company Trademarks US$'000
Year ended 31st December 2005	
Opening net book amount	480
Amortization charge (Note (a))	(53)
Closing net book amount	427
At 31st December 2005	
Cost	800
Accumulated amortization	(373)
Net book amount	427
Year ended 31st December 2006	
Opening net book amount	427
Amortization charge (Note (a))	(53)
Closing net book amount	374
At 31st December 2006	
Cost	800
Accumulated amortization	(426)
Net book amount	374

Note:

(a) Amortization charge is included in administrative expenses in the profit and loss account.

14 INTANGIBLE ASSETS (Continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

A segment-level summary of the goodwill allocation is presented below.

	2006 US$'000	2005 US$'000
LCD monitors	**290,413**	290,413
LCD TVs	**37,793**	37,793
CRT monitors	**30,892**	30,892
	359,098	359,098

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations

	LCD monitors	LCD TVs
Gross margin	4.7%	3.5%
Growth rate	5.0%	20.0%
Discount rate	6.0%	6.0%

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The directors are of the opinion that there was no impairment of goodwill as at 31st December 2006 and 2005.

NOTES TO THE ACCOUNTS

15 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land outside Hong Kong US$'000	Buildings outside Hong Kong US$'000	Leasehold improvements US$'000	Machinery and equipment US$'000	Moulds US$'000	Electrical appliances and equipment US$'000	Transportation equipment US$'000	Furniture, fixtures and miscellaneous equipment US$'000	Construction-in-progress US$'000	Total US$'000
Year ended 31st December 2005										
Opening net book amount	6,779	18,070	2,382	9,559	9,873	11,396	661	3,337	2,358	64,415
Exchange differences	(235)	143	95	475	302	363	20	283	72	1,518
Acquisition of subsidiaries	–	18,879	–	7,229	10,525	13,284	154	1,686	1,011	52,768
Additions	–	6,963	1,568	4,804	20,592	7,882	93	3,039	26,141	71,082
Transfer	–	2,023	179	438	–	119	–	–	(2,759)	–
Disposals	–	–	(91)	(4)	(154)	(108)	–	(16)	–	(373)
Depreciation	–	(1,566)	(539)	(1,411)	(16,429)	(6,433)	(181)	(1,071)	–	(27,630)
Closing net book amount	6,544	44,512	3,594	21,090	24,709	26,503	747	7,258	26,823	161,780
At 31st December 2005										
Cost	6,544	55,529	4,840	35,140	111,201	98,372	2,295	13,092	26,823	353,836
Accumulated depreciation	–	(11,017)	(1,246)	(14,050)	(86,492)	(71,869)	(1,548)	(5,834)	–	(192,056)
Net book amount	6,544	44,512	3,594	21,090	24,709	26,503	747	7,258	26,823	161,780
Year ended 31st December 2006										
Opening net book amount	6,544	44,512	3,594	21,090	24,709	26,503	747	7,258	26,823	161,780
Reclassification	–	(2,206)	2,889	3,590	–	(4,199)	13	(87)	–	–
Exchange differences	85	(120)	66	630	400	105	17	6	25	1,214
Additions	–	1,959	591	6,218	33,442	15,851	280	6,452	23,179	87,972
Transfer	–	16,296	1,764	8,155	275	437	–	5	(33,335)	(6,403)
Disposals	–	–	(41)	(579)	(1,105)	(39)	(17)	–	–	(1,781)
Depreciation	–	(1,992)	(1,208)	(5,260)	(25,870)	(8,335)	(259)	(2,008)	–	(44,932)
Closing net book amount	6,629	58,449	7,655	33,844	31,851	30,323	781	11,626	16,692	197,850
At 31st December 2006										
Cost	6,629	71,061	10,036	63,213	128,278	87,384	2,380	18,989	16,692	404,662
Accumulated depreciation	–	(12,612)	(2,381)	(29,369)	(96,427)	(57,061)	(1,599)	(7,363)	–	(206,812)
Net book amount	6,629	58,449	7,655	33,844	31,851	30,323	781	11,626	16,692	197,850

Depreciation of US$42,857,000 (2005: US$26,343,000), US$98,000 (2005: US$67,000), US$258,000 (2005: US$252,000) and US$1,719,000 (2005: US$968,000) was presented in the profit and loss account within cost of goods sold, selling and distribution expenses, administrative expenses and research and development expenses respectively.

NOTES TO THE ACCOUNTS

16 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analyzed as follows:

	Group	
	2006	2005
	US$'000	US$'000
Outside Hong Kong, held on:		
Leases of over 50 years	**446**	455
Leases of between 10 to 50 years	**11,518**	12,134
	11,964	12,589

	2006	2005
	US$'000	US$'000
Opening net book value	**12,589**	1,056
Exchange difference	**(180)**	33
Additions	**–**	1,180
Acquisition of subsidiaries	**–**	10,384
Amortization of prepaid operating lease payments	**(250)**	(64)
Transfer to investment properties	**(195)**	–
Closing net book value	**11,964**	12,589

17 INVESTMENT PROPERTIES

	Group	
	2006	2005
	US$'000	US$'000
Opening net book value		
Transfer from land use rights and property, plant and equipment	**6,598**	–
Exchange difference	**143**	–
Closing net book value	**6,741**	–

The investment properties are in the PRC and are located on land held on leases of between 10 and 50 years. The Group leases out the investment properties under operating leases for a period of one to three years.

18 INVESTMENTS IN SUBSIDIARIES

	Company 2006 US$'000	Company 2005 US$'000
Unlisted shares, at cost	**59,066**	59,066
Amounts due from subsidiaries	**911,988**	833,074
Amounts due to subsidiaries	**–**	(30)
	971,054	892,110
Less: Non-current portion	**(796,854)**	(782,430)
Current portion	**174,200**	109,680

The amounts due from subsidiaries are unsecured, interest free and non-current in nature, except for an amount of US$76,000,000 (2005: US$133,500,000) which bears interest at London Inter-Bank Offering Rate ("LIBOR") plus 0.6% and repayable on or before 13th October 2007; and an amount of US$98,200,000 (2005: US$109,680,000) which is repayable on demand.

The amounts due to subsidiaries were unsecured, interest-free and had no fixed repayment terms.

Particulars of the principal subsidiaries of the Group which, in the opinion of the directors, principally affect the profit and assets of the Group, as at 31st December 2006 are as follows:

Name	Place of incorporation (Note (a))	Principal activities	Particulars of issued share capital/ registered capital	Interest held
Shares directly held by the Company:				
Top Victory International Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US$1 each	100%
Shares/investments indirectly held by the Company:				
Top Victory Investments Limited	Hong Kong	Trading of computer monitors and flat TVs and sourcing	HK$11,000 divided into 1,000 voting class "A" ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each (Note (e))	100%
Top Victory Electronics (Taiwan) Co., Ltd.[1]	Taiwan	Research and development of computer monitors and sourcing of certain components	60,000,000 ordinary shares of NT$10 each	100%
Top Victory Electronics (Fujian) Co., Ltd.[1] (Note (b))	The PRC	Production and sales of computer monitors	Paid-in capital of US$40,000,000	100%
TPV Electronics (Fujian) Co., Ltd.[1] (Note (b))	The PRC	Production and sales of computer monitors and flat TVs	Paid-in capital of US$45,000,000	100%
TPV Technology (Wuhan) Co., Ltd.[1] (Note (b))	The PRC	Production and sales of computer monitors	Paid-in capital of US$16,880,000	100%
TPV Display Technology (Wuhan) Co., Ltd.[1] (Note (b))	The PRC	Production and sales of computer monitors	Paid-in capital of US$12,000,000	100%

18 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation (Note (a))	Principal activities	Particulars of issued share capital/ registered capital	Interest held
Shares/investments indirectly held by the Company (Continued):				
AOC do Brasil Monitores Ltda.	Brazil	Sales and distribution of computer monitors and flat TVs	12,054,599 ordinary shares of Reais $1 each	99.56%
AOC International (Europe) GmbH	Germany	Sales and distribution of computer monitors and flat TVs	1 ordinary share of €230,081 each	100%
TPV International (USA), Inc.	United States of America	Sales and distribution of computer monitors and flat TVs	1,000,000 ordinary shares of US$1 each	100%
TPV International (Netherlands) B.V.	The Netherlands	Provision of after-sales services	5,000 ordinary shares of €100 each	100%
Envision Industria de Productos Electronicos Ltda.	Brazil	Production and sales of computer monitors and flat TVs	23,293,546 ordinary shares of Reais $1 each	99.79%
TPV Technology (Beijing) Co., Ltd. ("TPV Beijing")[1] (Note (c))	The PRC	Production and sales of computer monitors and flat TVs	280,600,000 ordinary shares of RMB1 each	100%
Philips Consumer Electronics Co. of Suzhou Ltd.[1] (Note (d))	The PRC	Production and sales of computer monitors and flat TVs	Paid-in capital of US$48,000,000	80%
P-Harmony Monitors (Taiwan) Ltd.[1]	Taiwan	Trading of computer monitors	1,000,000 ordinary shares of NT$100 each	100%
P-Harmony Monitors USA Inc.	United States of America	Trading of computer monitors	1,000 ordinary shares of US$1 each	100%
P-Harmony Monitors Netherlands B.V.	The Netherlands	Trading of computer monitors	300 ordinary shares of €100 each	100%

1 English translation is for identification purpose only.

Notes:

(a) These subsidiaries principally operate in their places of incorporation.

(b) These subsidiaries were established as wholly foreign owned enterprises in the PRC.

(c) This subsidiary was established as a joint-stock limited company with foreign investment in the PRC. After the completion of acquisition by the Group of the remaining interest held by the other shareholders of this company on 1st December 2005, this subsidiary has become a wholly foreign owned enterprise.

(d) This subsidiary was established as an equity joint venture company in the PRC.

(e) The non-voting deferred shares shall not confer on the holders thereof voting rights or any rights and privileges to participate in profits and assets except that Top Victory Investments Limited may distribute profits in respect of any financial year the first HK$100,000,000,000,000 thereof among the holders of the "A" ordinary shares and the balance, if any, among the holders of the "A" ordinary shares and the non-voting deferred shares. Top Victory Investments Limited may distribute assets as regards the first HK$100,000,000,000,000 thereof among the holders of "A" ordinary shares and the balance, if any, among the holders of "A" ordinary shares and non-voting deferred shares.

19 INTERESTS IN ASSOCIATED COMPANIES

	Group 2006 US$'000	2005 US$'000
Beginning of the year	**7,570**	30,509
Formation of associated companies	**–**	7,500
Share of associated companies' results (Note (a))		
– profit before taxation	**464**	8,224
– taxation	**–**	(289)
Dividend	**–**	(459)
Transfer to investments in subsidiaries upon acquisition of additional interest in an associated company	**–**	(37,915)
End of the year	**8,034**	7,570

Note:

(a) The amount for the year ended 31st December 2005 included the Group's share of results of a then associated company before the associated company became a wholly owned subsidiary of the Group.

The Group's interest in its principal associates, all of which are unlisted, were as follows:

Name	Particulars of issued shares held	Place of incorporation (Note (a))	Attributable to the Group Assets US$'000	Liabilities US$'000	Revenues US$'000	Profit/ (loss) US$'000	% Interest held
2006							
Envision Peripherals, Inc.	1,000,000 ordinary shares of US$1 each	United States of America	14,890	(14,890)	53,233	(332)	24%
HannStar Display (Wuhan) Corp.[1] (note (b))	Paid-in capital of US$15,000,000	The PRC	6,410	(3,530)	1,482	(20)	20%
CPT TPV Optical (Fujian) Co., Ltd.[1] (note (b))	Paid-in capital of US$22,500,000	The PRC	12,190	(7,036)	3,394	816	20%
			33,490	(25,456)	58,109	464	

Name	Particulars of issued shares held	Place of incorporation (Note (a))	Attributable to the Group Assets US$'000	Liabilities US$'000	Revenues US$'000	Profit/ (loss) US$'000	% Interest held
2005							
Envision Peripherals, Inc	1,000,000 ordinary shares of US$1 each	United States of America	16,173	(15,841)	48,196	95	24%
HannStar Display (Wuhan) Corp.[1] (note (b))	Paid-in capital of US$15,000,000	The PRC	5,005	(2,105)	21	(100)	20%
CPT TPV Optical (Fujian) Co., Ltd.[1] (note (b))	Paid-in capital of US$22,500,000	The PRC	6,271	(1,933)	58	(162)	20%
			27,449	(19,879)	48,275	(167)	

1 English translation is for identification purpose only.

Notes:

(a) The associated companies principally operate in their places of incorporation.

(b) These associated companies are established as wholly foreign owned enterprises in the PRC.

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Beginning of the year	**899**	2,007	**7**	15
Exchange differences	**(7)**	(31)	**–**	–
Additions	**50**	–	**–**	–
Disposals	**–**	(50)	**–**	–
Net gain/(loss) transfer to equity (Note 27)	**38**	(1,027)	**15**	(8)
End of the year	**980**	899	**22**	7

There was no impairment provision on available-for-sale financial assets in 2006.

Available-for-sale financial assets include the following:

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Listed securities:				
– Equity securities – Hong Kong	**22**	7	**22**	7
– Equity securities – Taiwan	**352**	198	**–**	–
Unlisted securities:				
– Equity securities traded on inactive markets and of private issuers	**606**	694	**–**	–
	980	899	**22**	7
Market value of listed securities	**374**	205	**22**	7

21 INVENTORIES

	Group	
	2006	2005
	US$'000	US$'000
Raw materials	**235,157**	165,787
Work-in-progress	**14,594**	6,627
Finished goods	**767,603**	511,278
Production supplies	**3,284**	3,971
	1,020,638	687,663

The cost of inventories recognized as expense and included in cost of goods sold amounted to US$6,576,617,000 (2005: US$4,610,290,000).

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Trade receivables	**1,144,272**	1,255,723	**–**	–
Less: provision for impairment of receivables	**(4,811)**	(5,034)	**–**	–
Trade receivables, net	**1,139,461**	1,250,689	**–**	–
Deposits	**1,666**	4,351	**–**	–
Prepayments	**24,678**	15,050	**313**	820
Other receivables	**158,669**	82,804	**–**	19
	1,324,474	1,352,894	**313**	839

The carrying amounts of trade receivables, deposits, prepayments and other receivables approximate their fair values.

The ageing analysis of trade receivables is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 – 30 days	**771,211**	636,819
31 – 60 days	**260,380**	375,308
61 – 90 days	**69,260**	206,197
91 – 120 days	**22,337**	25,532
Over 120 days	**21,084**	11,867
	1,144,272	1,255,723

The Group's sales are on credit terms from 30 to 120 days and certain of its export sales are on letters of credit or documents against payment.

There was a concentration of credit risk with respect to trade receivables as the Group's sales are concentrated in several key customers. The Group's credit risk control is disclosed in Note 3.

23 TRADE AMOUNTS DUE FROM ASSOCIATED COMPANIES

The ageing analysis of trade amounts due from associated companies is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 – 30 days	**7,819**	18,568
31 – 60 days	**6,337**	6,305
61 – 90 days	**7,557**	9,458
91 – 120 days	**1,685**	436
Over 120 days	**–**	311
	23,398	35,078

The trade amounts due from associated companies are unsecured, interest free and on normal commercial terms of repayment.

The carrying amount of trade amounts due from associated companies approximates its fair value.

24 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	US$'000	US$'000
Listed securities, at market value:		
– Equity securities – Singapore	**1,085**	1,913

Other financial assets at fair value through profit or loss are presented within the section on operating activities as part of the changes in working capital in the cash flow statement (Note 36).

Changes in fair values of other financial assets at fair value through profit or loss are recorded in other gains – net in the profit and loss account.

25 BANK BALANCES AND CASH

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Cash at bank and in hand	**88,705**	196,734	**1,056**	2,064
Short-term bank deposits	**7,320**	218,151	**–**	–
	96,025	414,885	**1,056**	2,064

25 BANK BALANCES AND CASH (Continued)

Bank balances and cash were denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
US dollars	**61,161**	292,474	**155**	800
Renminbi	**13,727**	112,646	**–**	–
Brazil reais	**9,601**	1,743	**–**	–
Euros	**7,100**	4,796	**44**	–
Polish zloty	**1,664**	–	**–**	–
Hong Kong dollars	**900**	1,462	**857**	1,236
Other currencies	**1,872**	1,764	**–**	28
	96,025	414,885	**1,056**	2,064

The effective interest rate on short-term bank deposits was 4.79% (2005: 3.4%); these deposits had an average maturity of 2 days (2005: 23 days).

The conversion of bank balances and cash of the Group denominated in Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

26 SHARE CAPITAL

	2006	2005
	US$'000	US$'000
Authorized:		
4,000,000,000 (2005: 4,000,000,000) ordinary shares of US$0.01 each	**40,000**	40,000
Issued and fully paid:		
1,942,185,525 (2005: 1,794,865,754) ordinary shares of US$0.01 each	**19,422**	17,949

A summary of the above movements in issued share capital of the Company is as follows:

	2006		2005	
	Number of issued ordinary shares of US$0.01 each	**Par value US$'000**	Number of issued ordinary shares of US$0.01 each	Par value US$'000
Beginning of the year	**1,794,865,754**	**17,949**	1,403,284,264	14,033
Issue of shares pursuant to the acquisition of subsidiaries (Note (a))	**–**	**–**	351,225,490	3,512
Issue of shares pursuant to exercise of share options (Note (b))	**40,819,771**	**408**	40,356,000	404
Issue of shares, net of expenses (Note (c))	**106,500,000**	**1,065**	–	–
End of the year	**1,942,185,525**	**19,422**	1,794,865,754	17,949

26 SHARE CAPITAL (Continued)

(a) The Company issued 263,176,463 shares of US$0.01 each on 5th September 2005 to Koninklijke Philips Electronics N.V. ("Philips") as part of the consideration for the acquisition of certain research, development and manufacturing activities in the fields of monitors and flat televisions and related ODM sales from Philips. These shares rank pari passu with the existing shares of the Company. The fair value of the shares issued at the date of acquisition amounted to HK$1,381,676,000 (HK$5.25 per share), or equivalent to US$177,137,000.

The Company issued 88,049,027 shares of US$0.01 each on 1st December 2005 to BOE Technology Group Co., Ltd. ("BOE"), Multi-Lines Investments Limited and Legend Holdings Limited as the consideration for the acquisition of 58.26% interest in TPV Beijing. These shares rank pari passu with the existing shares of the Company. The fair value of the shares issued at the date of acquisition amounted to HK$598,733,000 (HK$6.8 per share), or equivalent to US$76,761,000.

(b) During the year, 40,819,771 (2005: 40,356,000) new shares of US$0.01 each were issued upon the exercise of options under the share option scheme approved by the shareholders of the Company at an exercise price ranging from HK$0.67 to HK$4.735 (US$0.09 to US$0.61) per share. These shares rank pari passu with the existing shares of the Company.

The Company has share option schemes as at 31st December 2006, under which it may grant options to employees of the Group to subscribe for shares of the Company. During the year, 2,056,000 (2005: 3,493,000) of these options lapsed in connection with the cessation of employment of certain employees.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

				Number of share options			
Date of grant	Exercise price	Note	At 1st January 2006	Granted during the year	Exercised during the year	Lapsed during the year	At 31st December 2006
26th February 2001	HK$0.670	(i)	100,000	–	(100,000)	–	–
2nd May 2002	HK$3.300	(ii)	4,426,000	–	(1,007,000)	–	3,419,000
1st August 2002	HK$2.325	(iii)	13,033,000	–	(6,043,000)	–	6,990,000
3rd November 2003	HK$4.140	(iv)	28,170,000	–	(11,465,000)	–	16,705,000
20th May 2004	HK$4.735	(v)	105,772,000	–	(22,204,771)	(2,056,000)	81,511,229
			151,501,000	–	(40,819,771)	(2,056,000)	108,625,229

Notes:

(i) These options are exercisable at HK$0.670 (US$0.09) per share in three trenches: the maximum percentage of options exercisable after the first, second and third anniversary from 26th February 2001 are 20%, 50% and 100% respectively, with an expiry date on 25th February 2006.

(ii) These options are exercisable at HK$3.300 (US$0.42) per share in two trenches: the maximum percentage of options exercisable within the periods commencing from 8th June 2004 to 1st May 2007 and from 8th June 2005 to 1st May 2007 are 50% and 100%, respectively.

(iii) These options are exercisable at HK$2.325 (US$0.30) per share in two trenches: the maximum percentage of options exercisable within the periods commencing from 8th June 2004 to 31st July 2007 and from 8th June 2005 to 31st July 2007 are 50% and 100%, respectively.

26 SHARE CAPITAL (Continued)

(iv) These options are exercisable at HK$4.140 (US$0.53) per share in three trenches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 2nd November 2008, from 8th June 2005 to 2nd November 2008 and from 8th June 2006 to 2nd November 2008 are 20%, 50% and 100%, respectively.

(v) These options are exercisable at HK$4.735 (US$0.61) per share in three trenches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2005 to 19th May 2009, from 8th June 2006 to 19th May 2009 and from 8th June 2007 to 19th May 2009 are 20%, 50% and 100%, respectively.

Options exercised during the year resulted in 40,819,771 (2005: 40,356,000) ordinary shares being issued at HK$0.670 (US$0.09), HK$3.300 (US$0.42), HK$2.325 (US$0.30), HK$4.140 (US$0.53) and HK$4.735 (US$0.61), yielding the following proceeds:

	2006 **US$'000**	2005 US$'000
Ordinary share capital – at par	**408**	404
Share premium	**21,461**	17,030
Proceeds	**21,869**	17,434

The related weighted average share price at the time of exercise was HK$7.606 (US$0.98) (2005: HK$5.627 (US$0.72)) per share.

(c) The Company placed 106,500,000 shares of US$0.01 each to independent third parties. The placing price was HK$9.00 per share. In this placing, the Company issued 106,500,000 new shares.

NOTES TO THE ACCOUNTS

27 RESERVES

	Group											
	Share premium	Capital reserve (Note 5(c))	Share redemption reserve	Employee share-based compensation reserve	Exchange reserve	Reserve fund (Note (a))	Merger difference (Note (b))	Available- for-sale financial assets fair value reserve	Assets revaluation surplus	Convertible bonds (Note (d))	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1st January 2005	78,442	13,356	12	4,931	(4,802)	28,137	10,001	–	–	–	251,900	381,977
Fair value loss on available-for- sale financial assets	–	–	–	–	–	–	–	(1,027)	–	–	–	(1,027)
Convertible bonds, equity component (Note 35)	–	–	–	–	–	–	–	–	–	58,271	–	58,271
Exchange differences	–	–	–	–	6,208	–	–	–	–	–	–	6,208
Profit for the year	–	–	–	–	–	–	–	–	–	–	149,583	149,583
Transfer from retained profits	–	9,914	–	–	–	701	–	–	–	–	(10,615)	–
Issue of new shares pursuant to acquisition of subsidiaries (Note 26)	250,386	–	–	–	–	–	–	–	–	–	–	250,386
Employee share option scheme:												
– Employee share-based compensation benefits	–	–	–	4,749	–	–	–	–	–	–	–	4,749
– Issue of new shares pursuant to exercise of share options, net of expenses (Note 26)	17,030	–	–	–	–	–	–	–	–	–	–	17,030
Dividends paid:												
2004 final	–	–	–	–	–	–	–	–	–	–	(22,340)	(22,340)
2005 interim	–	–	–	–	–	–	–	–	–	–	(12,238)	(12,238)
Fair value adjustment upon acquisition of additional interest in a then associated company	–	–	–	–	–	–	–	–	5,308	–	–	5,308
Exercise of share option	1,346	–	–	(1,346)	–	–	–	–	–	–	–	–
Balance at 31st December 2005	347,204	23,270	12	8,334	1,406	28,838	10,001	(1,027)	5,308	58,271	356,290	837,907

Represented by:	
Other reserves	799,663
Proposed final dividend	38,244
Balance at 31st December 2005	837,907

	Group											
	Share premium	Capital reserve (Note 5(c))	Share redemption reserve	Employee share-based compensation reserve	Exchange reserve	Reserve fund (Note (a))	Merger difference (Note (b))	Available- for-sale financial assets fair value reserve	Assets revaluation surplus	Convertible bonds (Note (d))	Retained profits	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1st January 2006	347,204	23,270	12	8,334	1,406	28,838	10,001	(1,027)	5,308	58,271	356,290	837,907
Fair value gain on available-for- sale financial assets	–	–	–	–	–	–	–	38	–	–	–	38
Exchange differences	–	–	–	–	925	–	–	–	–	–	–	925
Profit for the year	–	–	–	–	–	–	–	–	–	–	151,760	151,760
Transfer from retained profits	–	18,509	–	–	–	5,990	–	–	–	–	(24,499)	–
Employee share option scheme:												
– Employee share-based compensation benefits	–	–	–	1,825	–	–	–	–	–	–	–	1,825
– Issue of new shares pursuant to exercise of share options, net of expenses (Note 26)	21,461	–	–	–	–	–	–	–	–	–	–	21,461
Issue of new shares, net of expenses (Note 26)	119,538	–	–	–	–	–	–	–	–	–	–	119,538
Dividends paid:												
2005 final	–	–	–	–	–	–	–	–	–	–	(38,301)	(38,301)
2006 interim	–	–	–	–	–	–	–	–	–	–	(15,510)	(15,510)
Exercise of share option	3,306	–	–	(3,306)	–	–	–	–	–	–	–	–
Balance at 31st December 2006	491,509	41,779	12	6,853	2,331	34,828	10,001	(989)	5,308	58,271	429,740	1,079,643

Represented by:	
Other reserves	1,046,928
Proposed final dividend	32,715
	1,079,643

27 RESERVES (Continued)

	Company							
	Share premium US$'000	Share redemption reserve US$'000	Employee share-based compensation reserve US$'000	Contributed surplus (Note (c)) US$'000	Available-for-sale financial assets fair value reserve US$'000	Convertible bonds (Note (d)) US$'000	Retained profits US$'000	Total US$'000
Balance at 1st January 2005	78,442	12	4,931	11,433	–	–	25,836	120,654
Fair value loss on available-for-sale financial assets	–	–	–	–	(8)	–	–	(8)
Convertible bonds equity component (Note 35)	–	–	–	–	–	58,271	–	58,271
Profit for the year	–	–	–	–	–	–	129,517	129,517
Issue of new shares pursuant to acquisition of subsidiaries (Note 26)	250,386	–	–	–	–	–	–	250,386
Employee share option scheme:								
– Employee share-based compensation benefits	–	–	4,749	–	–	–	–	4,749
– Issue of new shares pursuant to exercise of share options, net of expenses (Note 26)	17,030	–	–	–	–	–	–	17,030
Dividends paid:								
2004 final	–	–	–	–	–	–	(22,340)	(22,340)
2005 interim	–	–	–	–	–	–	(12,238)	(12,238)
Exercise of share option	1,346	–	(1,346)	–	–	–	–	–
At 31st December 2005	347,204	12	8,334	11,433	(8)	58,271	120,775	546,021
Represented by:								
Other reserves								507,777
Proposed final dividend								38,244
								546,021

	Company							
	Share premium US$'000	Share redemption reserve US$'000	Employee share-based compensation reserve US$'000	Contributed surplus (Note (c)) US$'000	Available-for-sale financial assets fair value reserve US$'000	Convertible bonds (Note (d)) US$'000	Retained profits US$'000	Total US$'000
Balance at 1st January 2006	347,204	12	8,334	11,433	(8)	58,271	120,775	546,021
Fair value gain on available-for-sale financial assets	–	–	–	–	15	–	–	15
Profit for the year	–	–	–	–	–	–	41,693	41,693
Employee share option scheme:								
– Employee share-based compensation benefits	–	–	1,825	–	–	–	–	1,825
– Issue of new shares pursuant to exercise of share options, net of expenses (Note 26)	21,461	–	–	–	–	–	–	21,461
Exercise of share option	3,306	–	(3,306)	–	–	–	–	–
Issue of new shares, net of expenses	119,538	–	–	–	–	–	–	119,538
Dividends paid:								
2005 final	–	–	–	–	–	–	(38,301)	(38,301)
2006 interim	–	–	–	–	–	–	(15,510)	(15,510)
At 31st December 2006	491,509	12	6,853	11,433	7	58,271	108,657	676,742
Represented by:								
Other reserves								644,027
Proposed final dividend								32,715
								676,742

27 RESERVES (Continued)

(a) In accordance with the relevant PRC regulations applicable to wholly foreign owned enterprises, the PRC subsidiaries are required to appropriate to reserve fund an amount of not less than 10% of the profit after taxation, calculated based on the PRC accounting standards. Should the accumulated total of this reserve fund reach 50% of the registered capital of the PRC subsidiaries, the enterprise will not be required to make any further appropriation. Pursuant to the relevant PRC regulations, this reserve can be used for making up losses and increase of capital.

(b) The merger difference of the Group represents the difference between the aggregate nominal value of the share capital of the subsidiaries acquired pursuant to a corporate reorganization (the "Reorganization"), which was completed on 21st September 1999, in preparation for a listing of the shares of the Company on The Stock Exchange of Hong Kong Limited, over the nominal value of the share capital of the Company issued in exchange thereof.

(c) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the share capital of the subsidiary acquired pursuant to the Reorganization and the value of the consolidated net assets of the subsidiary acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company will be able to pay its liabilities as they fall due and subsequent to the distribution, the aggregate amount of its total liabilities, as well as the issued share capital and premium is less than the realizable value of its assets.

(d) Convertible bonds in reserves represents the value of the equity conversion component. Details of the convertible bonds are set out in Note 35.

28 BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Non-current				
Bank borrowings	**–**	96,000	**–**	76,000
Convertible bonds (Note 35)	**199,857**	196,779	**199,857**	196,779
	199,857	292,779	**199,857**	272,779
Current				
Bank borrowings	**216,290**	285,380	**76,000**	57,500
Total borrowings	**416,147**	578,159	**275,857**	330,279

28 BORROWINGS (Continued)

As at 31st December 2006, the Group's borrowings were repayable as follows:

	Group				Company			
	Bank borrowings		Convertible bonds		Bank borrowings		Convertible bonds	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Within one year	**216,290**	285,380	**–**	–	**76,000**	57,500	**–**	–
In the second year	**–**	96,000	**–**	–	**–**	76,000	**–**	–
In the third to the fifth year	**–**	–	**199,857**	196,779	**–**	–	**199,857**	196,779
Wholly repayable within five years	**216,290**	381,380	**199,857**	196,779	**76,000**	133,500	**199,857**	196,779

The bank borrowings and convertible bonds of the Group are denominated in US dollars.

The effective interest rates at the balance sheet date were as follows:

	2006	2005
Bank borrowings	**5.23% - 6.20%**	4.08% - 5.54%
Convertible bonds (Note 35)	**5.29%**	5.29%

The carrying amounts of bank borrowings approximate their fair values.

As at 31st December 2006, the Group had undrawn bank loan and overdraft facilities of US$3,148,686,000 (2005: US$1,799,216,000).

29 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable taxation rates prevailing in the countries/places in which the Group operates.

Details of deferred taxation are as follows:

	Group	
	2006	2005
	US$'000	US$'000
Deferred tax assets	**7,305**	15,567

The movement on deferred taxation is as follows:

	Group	
	2006	2005
	US$'000	US$'000
At 1st January	**15,567**	5,041
Acquisition of subsidiaries	**–**	7,991
Deferred taxation (debited)/credited to the profit and loss account (Note 10)	**(8,262)**	2,535
At 31st December	**7,305**	15,567

29 DEFERRED TAXATION (Continued)

No deferred taxation was charged to equity during the year (2005: Nil).

The movement in deferred tax assets during the year is as follows:

	Depreciation allowances		Provisions		Unrealized profit		Tax losses		Others		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1st January	1,133	–	10,009	5,161	1,573	(109)	2,852	–	–	(11)	15,567	5,041
Acquisition of subsidiaries	–	1,133	–	4,006	–	–	–	2,852	–	–	–	7,991
(Debited)/credited to the profit and loss account	(1,133)	–	(5,099)	842	(830)	1,682	(1,200)	–	–	11	(8,262)	2,535
At 31st December	–	1,133	4,910	10,009	743	1,573	1,652	2,852	–	–	7,305	15,567

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The tax losses do not expire under current tax legislation.

There was no material unprovided deferred tax as at 31st December 2006 (2005: Nil).

30 PENSION OBLIGATIONS

The balance represented the Group's obligations in a defined benefit plan for its employees in Taiwan in accordance with the relevant local regulations.

The obligations are calculated using the projected unit credit method, discounted to its present value. Such pension obligations as at 31st December 2006 were valued by Actuarial Consulting Co., Ltd, an independent actuary.

The amount recognized in the balance sheet is determined as follows:

	Group	
	2006	2005
	US$'000	US$'000
Present value of funded obligations	5,764	5,145
Fair value of plan assets	(1,264)	(1,002)
Present value of unfunded obligations	4,500	4,143
Unrecognized actuarial losses	(860)	(945)
Liability in the balance sheet	3,640	3,198

NOTES TO THE ACCOUNTS

30 PENSION OBLIGATIONS (Continued)

The amounts recognized in the profit and loss account are as follows:

	2006 US$'000	2005 US$'000
Current service cost	**421**	613
Interest cost	**195**	176
Expected return on plan assets	**(28)**	(30)
Net actuarial losses recognized during the year	**40**	42
Total expense, included in employee benefit expense (Note 8)	**628**	801

The actual return on plan assets was US$52,000 (2005: US$13,000).

Movement in the liability recognized in the balance sheet:

	Group	
	2006 US$'000	2005 US$'000
At 1st January	**3,198**	2,634
Total expense, included in employee benefit expense (Note 8)	**628**	801
Contributions paid	**(186)**	(237)
At 31st December	**3,640**	3,198

The principal actuarial assumptions used are as follows:

	2006	2005
Discount rate	**3.75%**	3.75%
Expected rate of return on plan assets	**2.75%**	2.75%
Expected rate of future salary increment	**3.00%**	3.00%

31 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group	
	2006 US$'000	2005 US$'000
0–30 days	**426,220**	499,515
31–60 days	**439,306**	426,313
61–90 days	**302,751**	274,971
Over 90 days	**161,677**	166,040
	1,329,954	1,366,839

NOTES TO THE ACCOUNTS

32 WARRANTY PROVISIONS

	Group	
	2006	2005
	US$'000	US$'000
At 1st January	**34,245**	20,910
Acquisition of a subsidiary	**–**	9,443
Charged to the profit and loss account (Note 7)	**57,040**	31,464
Utilized during the year	**(58,187)**	(27,572)
At 31st December	**33,098**	34,245

The Group gives warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily within a period ranging from 12 months to 36 months. The provision as at 31st December 2006 had been made for expected warranty claims on the products sold during the last thirty-six months. It is expected that the majority of this provision will be utilized in the next financial year, and all will be utilized within three years of the balance sheet date.

33 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2006	2005
	US$'000	US$'000
Liabilities carried at fair value		
– Interest rate swaps	**2,799**	–
– Foreign exchange forward contracts	**2,905**	2,105
	5,704	2,105

(a) Interest rate swaps

The total notional principal amount of the outstanding interest rate swaps as at 31st December 2006 was US$140,000,000 (2005: Nil).

(b) Foreign exchange forward contracts

The total notional principal amounts of the outstanding foreign exchange forward contracts as at 31st December 2006 are as follows:

	Group	
	2006	2005
	US$'000	US$'000
Sell Euros for US dollars	**7,862**	10,732
Sell Japanese Yen for US dollars	**1,000**	6,000
Sell US dollars for Renminbi	**1,737,000**	1,035,000
Sell Renminbi for US dollars	**1,752,000**	1,045,000

NOTES TO THE ACCOUNTS

34 PLEDGE OF ASSETS

As at 31st December 2006, all the banking facilities of the Group were unsecured and no assets were pledged as security for the Group's banking facilities. As at 31st December 2005, the Group's property, plant and equipment of US$13,671,000, land use rights of US$836,000 and bank deposits of US$3,861,000 were pledged as security for certain banking facilities of the Group.

35 CONVERTIBLE BONDS

The Company issued 3.35% convertible bonds in the principal amount of US$211 million to Philips on 5th September 2005.

The bonds mature five years from the issue date at their principal amount of US$211 million or can be converted into the Company's ordinary shares at the holder's option at a conversion price of HK$5.023 per share until 5th September 2007 and HK$5.241 thereafter.

The conversion price will be subject to adjustment for subdivision or consolidation of shares, bonus issues, rights issues, distribution of reserves, any dividend payment(s) in excess of the dividend payout ratio cap, capital reduction and other dilutive events.

The fair values of the liability component and the equity conversion component were determined at the time of the issuance of the bonds.

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The fair value of the equity conversion component, is included in shareholders' equity (Note 27).

The convertible bonds recognized in the balance sheet is calculated as follows:

	Group and Company	
	2006	2005
	US$'000	US$'000
Equity component	**58,271**	58,271
Liability component		
At 1st January		
On initial recognition at 5th September 2005	**196,779**	193,369
Interest expense (Note 9)	**10,229**	3,410
Interest paid	**(7,151)**	–
At 31 December (Note 28)	**199,857**	196,779

The fair value of the liability component of the convertible bonds as at 31st December 2006 amounted to US$188,082,000 (2005: US$190,714,000). The fair value was calculated using cash flows discounted at a rate based on the borrowing rate of 6.78% (2005: 5.75%).

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (used in)/generated from operations

	2006 US$'000	2005 US$'000
Operating profit	**208,261**	162,553
Depreciation	**44,932**	27,630
Amortization of land use rights	**250**	64
Amortization of intangible assets	**53**	53
Loss on disposal of property, plant and equipment	**602**	373
Gain on disposal of other financial assets at fair value through profit and loss	**(24)**	–
Share options granted to directors and employees	**1,825**	4,749
Unrealized loss/(gain) on derivative financial instruments	**3,599**	(4,002)
Operating profit before working capital changes	**259,498**	191,420
Decrease/(increase) in net amounts due from associated companies	**11,680**	(28,335)
Decrease/(increase) in trade receivables	**111,228**	(187,260)
Increase in deposits, prepayments and other receivables	**(82,808)**	(42,600)
Increase in inventories	**(332,975)**	(63,144)
Decrease/(increase) in other financial assets at fair value through profit or loss	**393**	(1,913)
(Decrease)/increase in trade payables	**(36,885)**	150,832
(Decrease)/increase in warranty provisions, other payables and accruals and pension obligations	**(37,692)**	42,782
Net cash (used in)/generated from operations	**(107,561)**	61,782

(b) Analysis of changes in financing during the year

	Share capital and share premium		Bank loans		Pledged bank deposits	
	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000	2006 US$'000	2005 US$'000
At 1st January	**365,153**	92,475	**381,380**	205,450	**(3,861)**	(6,474)
Issue of new shares pursuant to exercise of share options	**21,869**	17,434	**–**	–	**–**	–
Issue of new shares, net of expenses	**120,603**	–	**–**	–	**–**	–
Issue of new shares pursuant to acquisition of subsidiaries	**–**	253,898	**–**	–	**–**	–
Exercise of share options	**3,306**	1,346	**–**	–	**–**	–
Acquisition of a subsidiary	**–**	–	**–**	40,085	**–**	–
(Repayment)/net inception of short-term bank loans	**–**	–	**(69,090)**	158,345	**–**	–
Repayment of long-term bank loans	**–**	–	**(96,000)**	(22,500)	**–**	–
Decrease in pledged bank deposits	**–**	–	**–**	–	**3,861**	2,613
At 31st December	**510,931**	365,153	**216,290**	381,380	**–**	(3,861)

NOTES TO THE ACCOUNTS

37 CONTINGENT LIABILITIES

(a) Corporate guarantees

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Guarantees in respect of banking facilities granted to:				
– subsidiaries	**–**	–	**1,649,474**	1,080,447
– an associated company	**7,000**	–	**–**	–
	7,000	–	**1,649,474**	1,080,447

(b) In April 2003, a third party company commenced legal action in the United States of America against the Company and one of its associated companies. This action claimed damages related to alleged infringement of certain patents in respect of liquid crystal display technology ("Patent I").

It was alleged among other matters that:

(i) the Company incorporated certain LCD panels that infringed Patent I into computer products, such as monitors;

(ii) the associated company, as the Company's distributor, imported into and sold in the United States of America computer products that included such LCD panels, including monitors sold under the brand name AOC; and

(iii) the Company, its associated company and the supplier of the LCD panels were working in concert to import and sell in the United States of America infringing LCD panels (and/or products with infringing LCD panels incorporated therein).

The directors are of the opinion that while the proceedings are still ongoing, it is not probable to assess the outcome of the litigation for the time being. Even if the outcome of the litigation turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

(c) In February 2004, a third party company filed a complaint in the United States of America against the Group, one of its associated companies and certain other third party companies.

The complaint concerned claims of damages related to alleged infringement of certain patents in respect of technology of the design and manufacture of LCD ("Patent II").

As far as the Group and its associated company were concerned, it was alleged among other matters that:

(i) they had had infringed, actively induced and/or contributed to the infringement of Patent II by making, using, causing to be used, offering to sell, causing to be offered for sale, selling, causing to be sold, importing and/or causing to be imported LCDs and/or LCD products in the United States of America; and

37 CONTINGENT LIABILITIES (Continued)

(ii) as a consequence of the infringement, the plaintiff had been damaged and would continue to sustain damages unless the court grants an award of damages to it covering reasonably attorneys' fees, costs and expenses that incurred by it for pursuing this action.

The directors are of the opinion that while proceedings were stayed according to the court's Memorandum Order on 13th May 2004, it is not probable to assess the future outcome of the litigation for the time being. Even if the outcome turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

(d) In April 2005, a third party company filed a first amended complaint in the United States of America against the Group, one of its associated companies and certain other third party companies.

The complaint concerned claims for damages related to alleged infringement of certain patents in respect of technology of the design and manufacture of LCD and related products ("Patent III").

As far as the Group and its associated company were concerned, it was alleged among other matters that:

(i) they had had infringed, contributory infringed and/or actively induced infringement; and were infringing, contributory infringing and/or actively inducing infringement of Patent III by making, using, causing to be used, offering to sell, causing to be offered for sale, selling, causing to be sold, importing and/or causing to be imported LCDs and/or LCD products in the United States of America; and

(ii) the infringement of Patent III had been and continued to be deliberate and wilful, making and entitling the plaintiff to increased damages which included attorneys' fee, costs and expenses that had been and would have been incurred by it for pursuing this action.

The directors are of the opinion that while the proceedings were stayed to the extent the Group is concerned according to the Court's order granted on 17th November 2005, it is not probable to assess the future outcome of the litigation for the time being. Even if the outcome of the litigation turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

(e) In September 2005, an individual plaintiff commenced legal action in the United States of America against one of the associated companies of the Group and other third party companies. This action claimed damages related to alleged infringement of certain patents in respect of ergonomically adjustable flat panel displays ("Patent IV").

As far as this associated company was concerned, it was alleged among other matters that:

(i) it had had made, used, offered for sale, imported and sold in the United States of America, and continued to make, use, offer for sale, import and sell in the United States of America flat panel displays which infringed Patent IV, induced others to infringe, and/or contributorily infringe Patent IV; and

NOTES TO THE ACCOUNTS

37 CONTINGENT LIABILITIES (Continued)

(ii) the plaintiff had suffered damages as a result of the infringing activities, and would continue to suffer such damage as long as those infringing activities continue.

The directors are of the opinion that while the proceedings are still ongoing, it is not probable to assess the outcome of the litigation for the time being. Even if the outcome of the litigation turns out to be unfavourable, the directors consider that its future settlement may not have any material financial impact on the Group as a whole.

38 COMMITMENTS

(a) Capital commitments

	Group	
	2006	2005
	US$'000	US$'000
Capital commitments for plant and equipment		
– Contracted but not provided for	**13,735**	11,970
Commitment for acquisition of additional interest in a non-wholly owned subsidiary		
– Contracted but not provided for	**17,000**	–

As at 31st December 2006, the Company did not have any significant capital commitment (2005: Nil).

(b) Commitments under operating leases

As at 31st December 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2006	2005
	US$'000	US$'000
Not later than one year	**2,836**	676
Later than one year and not later than five years	**1,732**	2,701
Later than five years	**701**	–
	5,269	3,377

As at 31st December 2006, the Company did not have any significant commitment under operating leases (2005: Nil).

38 COMMITMENTS (Continued)

(c) Future operating lease receivable arrangements

As at 31st December 2006, the Group's future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	Group	
	2006	2005
	US$'000	US$'000
Not later than one year	**918**	–
Later than one year and not later than five years	**809**	–
	1,727	–

As at 31st December 2006, the Company did not have any significant future operating lease receivable arrangements (2005: Nil).

39 BUSINESS COMBINATIONS

(a) On 5th September 2005, the Group acquired, certain research, development and manufacturing activities in the fields of monitors and flat televisions and related ODM sales ("Philips Contributed Business") from Philips, an independent third party prior to the transaction.

Details of goodwill are as follows:

	2005
	US$'000
Purchase consideration	487,245
Fair value of net assets acquired	(149,403)
Goodwill (Note 14)	337,842

The goodwill was attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Philips Contributed Business.

(b) On 1st December 2005, the Group acquired the remaining interests of TPV Beijing, a then associated company, from BOE, Multi-Lines Investments Limited and Legend Holdings Limited.

Details of goodwill are as follows:

	2005
	US$'000
Purchase consideration	76,761
Fair value of net assets acquired	(60,330)
Goodwill (Note 14)	16,431

The goodwill was attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of TPV Beijing.

NOTES TO THE ACCOUNTS

40 RELATED PARTY TRANSACTIONS

(a) As at 31st December 2006, the major shareholders of the Company are BOE and Philips, which owned 21.85% and 13.55% of the Company's issued shares respectively.

(b) During the year, the Group had the following significant transactions with its associated companies, Envision Peripherals, Inc. and CPT TPV Optical (Fujian) Co., Ltd, and its substantial shareholders, BOE and Philips, which were carried out in the normal course of the Group's business:

	Note	**2006 US$'000**	2005 US$'000
Sales of raw materials and finished goods to a then associated company	(i)	**–**	40,405
Sales of finished goods to an associated company	(ii)	**98,236**	81,616
Sales of finished goods to Philips and its subsidiaries	(ii)	**1,731,909**	539,207
Purchases of raw materials, finished goods, property, plant and equipment and low value consumables from a then associated company	(iii)	**–**	(184,533)
Purchases of raw materials from BOE and its subsidiaries	(iv)	**(144,725)**	(72,968)
Purchases of raw materials from Philips and its subsidiaries	(iv)	**(728,693)**	(276,572)
Technical support service fee received from a then associated company	(v)	**–**	3,595
Warranty cost recovery from a then associated company	(vi)	**–**	2,895
IT service fee paid to Philips and its subsidiaries	(vii)	**(2,708)**	(1,421)
Commission paid to Philips and its subsidiaries	(viii)	**(651)**	(308)
Rental income from an associated company	(ix)	**551**	–

Notes:

(i) Sales of raw materials and finished goods to a then associated company were conducted in the normal course of business at prices and terms as agreed between the transacting parties.

(ii) Sales of finished goods were conducted in the normal course of business at prices and terms as agreed between the transacting parties.

(iii) Purchases of raw materials, finished goods, property, plant and equipment and low value consumables from a then associated company were conducted in the normal course of business at prices and terms as agreed between the transacting parties.

(iv) Purchases of raw materials were conducted in the normal course of business at prices and terms as agreed between the transacting parties.

(v) Technical support service fee received from a then associated company was charged at terms as agreed between the transacting parties.

(vi) Warranty cost recovery from a then associated company was charged at terms as agreed between the transacting parties.

(vii) IT service fee paid was charged at terms as agreed between the transacting parties.

(viii) Commission paid was charged at terms as agreed between the transacting parties.

(ix) Rental income received was charged at terms as agreed between the transacting parties.

40 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

	2006 US$'000	2005 US$'000
Salaries and other short-term employee benefits	**1,508**	1,370
Share-based payments	**300**	782
	1,808	2,152

(d) Year-end balances arising from sales/purchases of goods

	2006 US$'000	2005 US$'000
Receivables from related parties:		
Associated companies (Note 23):		
– Envision Peripherals, Inc.	**23,398**	34,950
– HannStar Display (Wuhan) Corp.	**–**	14
– CPT TPV Optical (Fujian) Co., Ltd	**–**	114
	23,398	35,078
A substantial shareholder and its subsidiaries:		
– Philips and its subsidiaries	**289,344**	407,070
Payables to related parties:		
Substantial shareholders and their subsidiaries:		
– BOE and its subsidiaries	**32,122**	17,966
– Philips and its subsidiaries	**44,066**	99,642
	76,188	117,608

NOTES TO THE ACCOUNTS

41 EVENTS AFTER THE BALANCE SHEET DATE

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the new "CIT Law"). The new CIT Law changes the corporate income tax rate to 25% with effect from 1st January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these accounts are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31st December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.

42 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 11th April 2007.