Notes to Financial Statements

31 December 2006

1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited is a limited liability company incorporated in the Cayman Islands.

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

- manufacture and sale of colour television sets, and trading of related components
- manufacture and sale of other audio-visual products
- manufacture and sale of computer related products (discontinued during the year)

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People's Republic of China (the "PRC").

2. BASIS OF PRESENTATION

(a) Going concern

As at 31 December 2006, the Group had net current liabilities of approximately HK$1,010 million that included bank loans of approximately HK$1,115 million (the "Syndication Loans") which were repayable on demand due to the breach of certain financial covenants of the relevant bank loan agreements. The Group also incurred a loss attributable to equity holders of the parent of approximately HK$2,497 million for the year ended 31 December 2006.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, or otherwise to sustain the Group as a going concern, the directors of the Company have taken the following measures:

(i) On 12 October 2006, the Company, TTE Corporation ("TTE"), a wholly-owned subsidiary of the Company, and TTE Europe SAS ("TTE Europe"), a wholly-owned subsidiary of TTE, (collectively the "TCL Parties") entered into the term sheet (the "Settlement Term Sheet") with Thomson S.A. ("Thomson") and certain of its subsidiaries (collectively the "Thomson Parties") regarding the resolution of the Group's loss-making European operation (the "EU Business"), which was mainly conducted by TTE Europe, whereby the TCL Parties and the Thomson Parties have agreed to certain reciprocal concessions to alleviate the financial difficulties of the EU Business and pave the way for an amicable winding-down of this loss-making EU Business.

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Resolving and Settlement Agreement (the "Master Agreement") dated 13 February 2007 entered into between the TCL Parties and the Thomson Parties. Further details of these arrangements are detailed in note 47 to the financial statements.

Notes to Financial Statements

31 December 2006

2. BASIS OF PRESENTATION (Continued)

(a) Going concern (Continued)

(ii) On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007.

Further details of the Rights Issue are set out in the Company's announcement dated 15 May 2007.

(iii) On 17 May 2007, the Company obtained an undertaking from TCL Corporation which undertakes that TCL Corporation together with T.C.L. Industries and TCL Finance Co., Ltd ("TCL Finance"), will make available to the Group loans of not less than HK$469 million, in aggregate, at each month end for the period from 17 May 2007 to 30 June 2008 or the date on which the issuance of convertible bonds discussed in (iv) below is completed, whichever is earlier.

(iv) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million).

Further details of the issue of the Bonds are set out in the Company's announcement dated 21 May 2007.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of the fund raising exercises in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2006.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in these financial statements.

2. BASIS OF PRESENTATION (Continued)

(b) Winding-down and liquidation of TTE Europe and its subsidiaries (collectively the "EU Group")

Liquidation basis of accounting

As a result of the Company's decision to significantly wind down the EU Group in October 2006 and the filing of a declaration of insolvency to the French court by TTE Europe on 24 May 2007, the liquidation basis of accounting has been adopted for the financial statements of the EU Group for the year ended 31 December 2006.

Under the liquidation basis of accounting, assets are stated at their estimated net realisable value, and liabilities are stated at their estimated settlement amounts, and the relevant estimates will be periodically reviewed and adjusted as appropriate. Assets and liabilities included in the financial statements of the EU Group are stated on the following bases:

- Items of property, plant and equipment and inventories are reflected at net realisable values which are based on the expected net sales proceeds to be received from the scrap sales of these assets;

- Trade receivables and other receivables are stated at their recoverable amounts, which are the estimated net cash proceeds to be received from the debtors;

- Cash and bank balances are presented at face value; and

- Trade payables, other payables, accruals and provisions are stated at estimated settlement amounts.

Adjustments to the liquidation basis of accounting

The EU Group accrued approximately HK$147 million as at 31 December 2006 in respect of costs and expenses expected to be incurred for the remaining wind-down activities. These costs and expenses include salaries and benefits for employees retained to assist with the wind-down activities, legal, accounting and professional fees, as well as other administrative expenses anticipated to be incurred during the wind-down period of the EU Group before liquidation.

In accordance with the liquidation basis of accounting, the Group recorded an adjustment of approximately HK$181 million to adjust liabilities of the EU Group to estimated settlement amounts.

Further details of the costs relating to the winding-down of the EU Group are set out in note 7 to the financial statements.

The preparation of the financial statements of the EU Group using the liquidation basis of accounting requires the Group to make assumptions, judgements and estimates that can have a significant impact on the assets and liabilities of the EU Group. Management bases its assumptions, judgements and estimates on the most recent information available and various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis, management evaluates its assumptions, judgements and estimates and makes changes accordingly.

Notes to Financial Statements

31 December 2006

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

3.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The principal changes in accounting policies are as follows:

(a) **HKAS 21 *The Effects of Changes in Foreign Exchange Rates***

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

3.2 IMPACT OF NEW AND REVISED HKFRSs (Continued)

The principal changes in accounting policies are as follows: (Continued)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as at fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

(d) HK(IFRIC)-Int 6 *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the European Union's Directive on Waste Electrical and Electronic Equipment in respect of sales of historical household equipment. This interpretation has had no material impact on these financial statements.

Notes to Financial Statements

31 December 2006

3.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in an associate are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill previously eliminated against consolidated capital reserve

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

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

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

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

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	2% - 4.5%
Leasehold improvements	25% - 50%
Plant and machinery	9% - 20%
Furniture, fixtures and equipment	18% - 25%
Motor vehicles	18% - 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 4 to 10 years.

Trademarks

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

Research and development costs

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

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

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and other payables, amounts due to the ultimate holding company and a shareholder and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values of similar instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

Revenue recognition

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

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

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

(c) from the rendering of services, when the services are rendered;

(d) rental income, on a time proportion basis over the lease terms; and

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer or management using a binomial model, further details of which are given in note 40 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

Notes to Financial Statements

31 December 2006

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share-based payment transactions (Continued)

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

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Pension schemes

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

Certain subsidiaries outside Hong Kong are required to contribute a certain percentage of their payroll costs to pension schemes operated by the respective governments. The only obligation of the Group with respect to the pension schemes is to pay the required ongoing contributions. Contributions under the schemes are charged to the income statement as they become payable in accordance with the rules of the pension schemes.

Certain subsidiaries operate defined benefits pension schemes and provide certain additional post-employment healthcare benefits to certain employees. These benefits are unfunded. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefits obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In addition to the judgements and estimates made by the EU Group in applying the liquidation basis of accounting in note 2(b) to the financial statements, in the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) *Derecognition of financial assets – Receivables purchase arrangements*

The Group has entered into certain receivables purchase arrangements with its banks and a factoring company on its trade receivables. The Group has determined that it retains substantially all the risks and rewards of ownership of these trade receivables, either the risks in respect of default payments or the time value of money, which are purchased by the relevant banks and the factoring company. Accordingly, the relevant trade receivables are not derecognised.

(ii) *Trademarks with indefinite useful lives*

The Group has certain trademarks with indefinite useful lives. The Group has determined that the useful lives of such trademarks are indefinite as there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

Notes to Financial Statements

31 December 2006

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

(i) *Impairment of goodwill and intangible assets with indefinite useful lives*

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill/intangible asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with indefinite useful lives at 31 December 2006 were HK$119,638,000 (2005: HK$206,639,000) and HK$56,598,000 (2005: HK$56,598,000), respectively. Further details are given in notes 19 and 20 to the financial statements, respectively.

(ii) *Useful lives and impairment of property, plant and equipment*

The Group determines the useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The estimated useful lives could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned. Actual economic lives of property, plant and equipment may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

(iii) *Impairment of trade receivables*

Impairment of trade receivables is made based on assessment of the recoverability of receivables due from customers. The identification of impairment requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact on the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iv) *Provision against obsolete and slow-moving inventories*

The Group reviews the condition of its inventories and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete and slow-moving items. Management reassesses the estimation on each balance sheet date.

The provision against obsolete and slow-moving inventories requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying value of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

(v) Warranty provisions

As further explained in note 35, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group's current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

Further information about the assumptions and their risk factors relating to defined retirement benefit obligations, the fair value of the share options granted and financial instruments are discussed in notes 39, 40 and 48, respectively.

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2006

5. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

	Continuing operations										Discontinued operation			
	Television		Audio-visual		Others		Eliminations		Total		Computer		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:														
Sales to external customers	26,368,102	29,937,575	2,224,068	1,986,323	594,653	576,047	–	–	29,186,823	32,499,945	1,568,162	2,056,385	30,754,985	34,556,330
Intersegment sales	1,234,744	1,085,755	417,992	369,878	4,705	6,952	(1,657,441)	(1,467,622)	–	(5,037)	–	5,037	–	–
Total	27,602,846	31,023,330	2,642,060	2,356,201	599,358	582,999	(1,657,441)	(1,467,622)	29,186,823	32,494,908	1,568,162	2,061,422	30,754,985	34,556,330
Segment results	(1,220,459)	(236,647)	17,589	(13,242)	(87,516)	11,096	–	–	(1,290,386)	(238,793)	5,501	(7,076)	(1,284,885)	(245,869)
Interest income									22,719	27,805	2,626	2,859	25,345	30,664
Corporate expense									(169,020)	(119,476)	–	–	(169,020)	(119,476)
Finance costs									(245,622)	(162,239)	(765)	(1,307)	(246,387)	(163,546)
Share of profits and losses of:														
Jointly-controlled entities	3,016	4,494	–	–	573	4,718	–	–	3,589	9,212	–	–	3,589	9,212
An associate	–	–	–	–	(70)	–	–	–	(70)	–	–	–	(70)	–
Fair value losses of equity investments at fair value through profit or loss	–	–	–	–	(37,653)	(95,083)	–	–	(37,653)	(95,083)	–	–	(37,653)	(95,083)
Costs in connection with the restructuring and winding-down of the EU Business, net	(694,868)	–	–	–	–	–	–	–	(694,868)	–	–	–	(694,868)	–
Profit/(loss) before tax									(2,411,311)	(578,574)	7,362	(5,524)	(2,403,949)	(584,098)
Tax									(96,523)	(107,311)	–	(11,858)	(96,523)	(119,169)
Profit/(loss) for the year									(2,507,834)	(685,885)	7,362	(17,382)	(2,500,472)	(703,267)
Assets and liabilities														
Segment assets	12,558,439	14,223,166	254,753	87,194	212,571	1,180,351	(2,830,198)	(500,469)	10,195,565	14,990,242	–	644,424	10,195,565	15,634,666
Interests in jointly-controlled entities	110,444	106,264	–	–	–	50,824	–	–	110,444	157,088	–	–	110,444	157,088
Interests in an associate	–	–	–	–	69,566	–	–	–	69,566	–	–	–	69,566	–
Unallocated assets									1,968,381	2,116,411	–	101,504	1,968,381	2,217,915
Bank overdrafts included in segment assets	53,048	141,467	–	–	–	–	–	–	53,048	141,467	–	–	53,048	141,467
Total assets									12,397,004	17,405,208	–	745,928	12,397,004	18,151,136
Segment liabilities	11,426,525	11,796,928	349,733	197,943	581,039	1,075,183	(4,531,505)	(3,290,739)	7,825,792	9,779,315	–	446,811	7,825,792	10,226,126
Unallocated liabilities									2,828,122	3,684,551	–	–	2,828,122	3,684,551
Bank overdrafts included in segment assets	53,048	141,467	–	–	–	–	–	–	53,048	141,467	–	–	53,048	141,467
Total liabilities									10,706,962	13,605,333	–	446,811	10,706,962	14,052,144
Other segment information:														
Depreciation and amortisation	381,925	316,688	14,940	14,064	17,243	8,490	–	–	414,108	339,242	2,990	5,747	417,098	344,989
Impairment and fair value losses recognised in the income statement	39,865	–	–	–	37,653	96,141	–	–	77,518	96,141	–	–	77,518	96,141
Costs in connection with the restructuring and winding-down of the EU Business, net	694,868	–	–	–	–	–	–	–	694,868	–	–	–	694,868	–
Capital expenditure	194,214	801,359	17,129	26,397	12,411	12,234	–	–	223,754	839,990	1,582	15,594	225,336	855,584

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group

	PRC		Europe		North America		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**12,224,685**	13,222,387	**3,879,008**	7,868,705	**6,553,278**	6,792,573	**8,098,014**	6,672,665	**30,754,985**	34,556,330
Attributable to a discontinued operation	**(1,568,162)**	(2,056,385)	**–**	–	**–**	–	**–**	–	**(1,568,162)**	(2,056,385)
Revenue from continuing operations	**10,656,523**	11,166,002	**3,879,008**	7,868,705	**6,553,278**	6,792,573	**8,098,014**	6,672,665	**29,186,823**	32,499,945
Other segment information:										
Segment assets	**4,634,824**	5,930,814	**724,580**	4,376,653	**2,179,171**	2,790,470	**2,656,990**	2,536,729	**10,195,565**	15,634,666
Capital expenditure	**96,681**	597,261	**38,593**	89,472	**74,724**	113,988	**15,338**	54,863	**225,336**	855,584

6. TURNOVER

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

Notes to Financial Statements

31 December 2006

7. COSTS IN CONNECTION WITH THE RESTRUCTURING AND WINDING-DOWN OF THE EU BUSINESS, NET

During the year, the Group had implemented a number of measures in restructuring the EU Business and finally, after the conclusion of the Settlement Term Sheet, the Group decided to restructure and reposition its presence in Europe by significantly winding down the EU Business and building up a new business model. The costs incurred and accrued as at 31 December 2006 in connection with the restructuring and winding-down of the EU Business, net of related gains, were summarised below:

	HK$'000
Redundancy costs and severance payments	339,011
Estimated costs for the winding-down of TTE Europe	146,541
Impairment of items of property, plant and equipment	96,050
Impairment of other intangible assets	19,137
Impairment of trade and other receivables	124,853
Write-down of inventories to net realisable value	249,627
Adjustment to adjust liabilities of the EU Group to their estimated settlement amounts	(181,014)
Net gain arising from the Settlement Term Sheet (notes 25, 26 and 47(b)(v))	(87,211)
Gain on deconsolidation of a subsidiary (note 42(d))	(12,126)
	694,868

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on:		
Bank loans and overdrafts	**197,900**	108,661
Other loans wholly repayable within five years	**11,595**	1,940
Convertible notes	**–**	6,400
Loan from a shareholder	**17,432**	24,783
Loan from the ultimate holding company	**18,869**	21,762
Loan from an associate	**591**	–
	246,387	163,546
Attributable to:		
A discontinued operation (note 14)	**765**	1,307
Continuing operations reported in the consolidated income statement	**245,622**	162,239
	246,387	163,546

Notes to Financial Statements

31 December 2006

9. LOSS BEFORE TAX

In addition to the amounts disclosed in note 7 to the financial statements, the Group's loss before tax is arrived at after charging/(crediting):#

	Group 2006 HK$'000	Group 2005 HK$'000
Cost of inventories sold	**26,117,573**	28,910,462
Depreciation (note 17)	**408,091**	334,290
Research and development costs	**392,424**	521,041
Less: Government grants released*	**(7,579)**	(14,639)
Net research and development costs	**384,845**	506,402
Amortisation of other intangible assets (note 20)**	**6,464**	4,791
Minimum lease payments under operating leases in respect of land and buildings	**66,033**	63,701
Amortisation of prepaid land lease payments (note 18)	**2,543**	5,908
Auditors' remuneration	**20,494**	21,802
Employee benefits expense (including directors' remuneration – note 10):		
Wages and salaries	**1,529,690**	1,865,072
Defined contribution expense	**91,166**	84,148
Defined benefit expense (note 39)	**28,070**	23,879
Equity-settled share option expense	**22,295**	28,661
	1,671,221	2,001,760
Loss/(gain) on disposal of items of property, plant and equipment, and prepaid land lease payments	**11,562**	(26,517)
Gain on disposal of equity investments at fair value through profit or loss	**(3,179)**	–
Loss on liquidation of an available-for-sale investment	**–**	4,280
Impairment of items of property, plant and equipment***	**37,315**	–
Impairment of available-for-sale investments	**2,550**	1,058
Impairment of trade receivables***	**191,365**	120,196
Foreign exchange differences, net	**(26,580)**	72,693
Net rental income	**(11,860)**	(10,712)
Bank interest income	**(25,345)**	(30,664)
Restructuring costs, net of reimbursement (note 35)	**22,284**	(194)
Provision for warranties (note 35)	**698,334**	248,112
Reversal of write-down of inventories to net realisable value	**(954)**	(23,435)

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

* Certain government grants have been received for research activities within the Guangdong Province, the PRC. The government grants released have been deducted from the research and development costs to which they relate. There are no unfulfilled conditions or contingencies relating to these grants.

** The amortisation of other intangible assets is included in "Selling and distribution costs" on the face of the consolidated income statement.

*** The impairment of items of property, plant and equipment and the impairment of trade receivables are included in "Other operating expenses" on the face of the consolidated income statement.

Notes to Financial Statements

31 December 2006

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**1,088**	700
Other emoluments:		
Salaries, allowances and benefits in kind	**3,912**	3,448
Discretionary performance related bonuses	**4,183**	900
Employee share option benefits	**3,652**	3,254
Pension scheme contributions	**138**	94
	11,885	7,696
	12,973	8,396

(a) Independent non-executive directors

	2006			2005		
	Fees HK$'000	**Employee share option benefits HK$'000**	**Total HK$'000**	Fees HK$'000	Employee share option benefits HK$'000	Total HK$'000
Mr. Tang Guliang	**225**	**49**	**274**	150	51	201
Mr. Wang Bing	**225**	**49**	**274**	150	51	201
Dr. Hon Fongming, Perry	**63**	**49**	**112**	150	51	201
Mr. Robert Maarten Westerholf	**50**	**–**	**50**	–	–	–
	563	**147**	**710**	450	153	603

There was no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

Notes to Financial Statements

31 December 2006

10. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006						
Executive directors:						
Mr. Li Dongsheng	–	1,064	–	825	20	1,909
Ms. Lu Zhongli	–	390	–	412	–	802
Mr. Hu Qiusheng	–	489	–	412	15	916
Mr. Shi Wanwen	–	641	1,132	428	28	2,229
Mr. Wang Kangping	–	–	–	230	–	230
Mr. Yuan Bing	–	116	–	54	–	170
Mr. Yan Yong, Vincent	–	1,073	3,051	568	65	4,757
Mr. Zhao Zhongyao	–	139	–	527	10	676
	–	3,912	4,183	3,456	138	11,689
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	–	–	49	–	274
Mr. Alastair Kenneth Ruskin Campbell	150	–	–	–	–	150
Mr. Didier Trutt	150	–	–	–	–	150
	525	3,912	4,183	3,505	138	12,263
2005						
Executive directors:						
Mr. Li Dongsheng	–	650	200	853	–	1,703
Ms. Lu Zhongli	–	390	–	427	–	817
Mr. Hu Qiusheng	–	390	231	427	–	1,048
Mr. Zhao Zhongyao	–	435	274	554	19	1,282
Mr. Yan Yong, Vincent	–	1,073	195	597	56	1,921
Mr. Suen Haywai, Felipe	–	510	–	192	19	721
Mr. Alastair Kenneth Ruskin Campbell	50	–	–	–	–	50
Mr. Didier Trutt	50	–	–	–	–	50
	100	3,448	900	3,050	94	7,592
Non-executive director:						
Mr. Albert Thomas da Rosa, Junior	150	–	–	51	–	201
	250	3,448	900	3,101	94	7,793

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

Notes to Financial Statements

31 December 2006

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2005: Nil) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2005: five) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**9,362**	10,302
Discretionary performance related bonuses	**5,812**	4,230
Pension scheme contributions	**1,288**	1,501
Compensation for the loss of office	**2,944**	–
	19,406	16,033

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

	Number of employees	
	2006	2005
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**2**	4
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
More than HK$4,500,001	**1**	–
	4	5

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**16,662**	11,403
Overprovision in prior years	**(1,712)**	–
Current – Elsewhere		
Charge for the year	**80,333**	119,421
Under/(over) provision in prior years	**2,437**	(3,466)
Deferred *(note 38)*	**(1,197)**	(20,047)
Total tax charge for the year	**96,523**	107,311

12. TAX (Continued)

A reconciliation of the tax expense applicable to loss before tax using the statutory/applicable rates for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2006 HK$'000	2005 HK$'000
Loss before tax (including profit/(loss) before tax from a discontinued operation)	**(2,403,949)**	(584,098)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**(514,621)**	(225,978)
Lower tax rate for specific provinces or local authority	**(130,737)**	(145,571)
Adjustments in respect of current tax of previous periods	**725**	(3,466)
Profits and losses attributable to jointly-controlled entities and an associate	**(1,944)**	(4,169)
Income not subject to tax	**(18,928)**	(65,371)
Expenses not deductible for tax	**80,652**	168,838
Tax losses not recognised	**697,641**	385,865
Tax losses utilised from previous periods	**(18,161)**	–
Others	**1,896**	9,021
Tax charge at the Group's effective rate	**96,523**	119,169
Represented by:		
Tax charge attributable to a discontinued operation (note 14)	**–**	11,858
Tax charge attributable to continuing operations reported in the consolidated income statement	**96,523**	107,311
	96,523	119,169

The share of tax attributable to jointly-controlled entities amounting to HK$783,000 (2005: HK$1,130,000) is included in "Share of profits and losses of jointly-controlled entities and an associate" on the face of the consolidated income statement.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities and an associate are subject to income taxes at tax rates ranging from 15% to 33%.

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of HK$2,700,095,000 (2005: HK$296,037,000) which has been dealt with in the financial statements of the Company (note 41).

Notes to Financial Statements

31 December 2006

14. DISCONTINUED OPERATION

On 21 June 2006, the Company and T.C.L. Industries entered into a sale and purchase agreement and pursuant to which the Company, inter alia, disposed of its entire interest in TCL Computer Technology (BVI) Co., Ltd. ("Computer Technology") to T.C.L. Industries for a consideration of HK$283 million. Computer Technology and its subsidiaries are principally engaged in the manufacture and sale of computer related products and represent a separate business segment, the Computer segment, of the Group that is part of the PRC operations. The disposal was completed on 8 September 2006 and further details of this disposal are set out in note 47 to the financial statements.

The results of the Computer segment for the period from 1 January to 8 September 2006 and the year ended 31 December 2005 are presented below:

	2006 HK$'000	2005 HK$'000
Turnover	**1,568,162**	2,056,385
Other revenue	**12,357**	19,025
Expenses	**(1,572,392)**	(2,079,627)
Finance costs	**(765)**	(1,307)
Profit/(loss) before tax from the discontinued operation	**7,362**	(5,524)
Tax	**–**	(11,858)
Profit/(loss) for the year from the discontinued operation	**7,362**	(17,382)

The net cash flows incurred by the Computer segment are as follows:

	2006 HK$'000	2005 HK$'000
Operating activities	**(184,904)**	(41,180)
Investing activities	**75,440**	(83,976)
Financing activities	**243,708**	176,458
Net cash inflow	**134,244**	51,302
Earnings/(loss) per share:		
Basic, from the discontinued operation	**HK0.19 cents**	HK(0.54) cents
Diluted, from the discontinued operation	**N/A**	N/A

14. DISCONTINUED OPERATION (Continued)

The calculations of basic and diluted earnings/(loss) per share from the discontinued operation are based on:

	2006 HK$'000	2005 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation used in the basic and diluted earnings/(loss) per share calculation	**7,362**	(17,382)

	Number of shares 2006	 2005
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	**3,902,951,727**	3,210,011,179
Effect of dilution – weighted average number of ordinary shares:		
Assumed to have been issued at no consideration on deemed exercise of all outstanding share options	–	6,240,721
Deemed conversion of all convertible notes	–	105,886,421
Deemed exercise of the Exchange Option during the year	–	692,778,748
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	**3,902,951,727**	4,014,917,069

Diluted earnings/(loss) per share amounts for the year ended 31 December 2006 and 31 December 2005 have not been disclosed, as the share options outstanding during these years and the convertible notes and Exchange Option outstanding during the prior year had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

15. DIVIDENDS

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

Notes to Financial Statements

31 December 2006

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

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

	2006 HK$'000	2005 HK$'000
Loss		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:		
From continuing operations	**(2,504,676)**	(581,511)
From a discontinued operation	**7,362**	(17,382)
	(2,497,314)	(598,893)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	–	6,400
Adjustment to minority interests upon exercise of the Exchange Option	–	(100,372)
Loss for the purpose of diluted loss per share	**(2,497,314)**	(692,865)
Attributable to:		
Continuing operations	**(2,504,676)**	(675,483)
Discontinued operation	**7,362**	(17,382)
	(2,497,314)	(692,865)

	Number of shares 2006	 2005
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	**3,902,951,727**	3,210,011,179
Effect of dilution – weighted average number of ordinary shares:		
Assumed to have been issued at no consideration on deemed exercise of all outstanding share options	–	6,240,721
Deemed conversion of all convertible notes	–	105,886,421
Deemed exercise of the Exchange Option during the year	–	692,778,748
Weighted average number of ordinary shares used in diluted loss per share calculation	**3,902,951,727**	4,014,917,069

Diluted loss per share amounts for the year ended 31 December 2006 and 31 December 2005 have not been disclosed, as the share options outstanding during these years and the convertible notes and Exchange Option outstanding during the prior year had an anti-dilutive effect on the basic loss per share for these years.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006							
At 1 January 2006:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	–	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 1 January 2006, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
Additions	7,289	9,429	62,383	78,679	5,015	62,541	225,336
Disposals	(25,270)	(6,333)	(45,049)	(70,619)	(1,543)	(36,151)	(184,965)
Disposal of subsidiaries (note 42(c))	(283,939)	–	(1,145)	(16,201)	(1,979)	–	(303,264)
Deconsolidation of a subsidiary (note 42(d))	–	–	(4,052)	(1,104)	–	–	(5,156)
Depreciation provided during the year	(59,090)	(14,217)	(227,704)	(99,137)	(7,943)	–	(408,091)
Impairment	–	(21)	(99,681)	(21,663)	–	(12,000)	(133,365)
Transfers	21,148	–	77,018	17,976	–	(116,142)	–
Exchange realignment	40,131	1,956	22,526	11,666	829	3,766	80,874
At 31 December 2006, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
At 31 December 2006:							
Cost	1,341,218	101,649	1,458,552	353,801	61,939	53,874	3,371,033
Accumulated depreciation and impairment	(204,292)	(37,604)	(851,397)	(235,514)	(35,963)	(12,472)	(1,377,242)
Net carrying amount	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791

Notes to Financial Statements
31 December 2006

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005							
At 1 January 2005:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	–	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 1 January 2005, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
Additions	286,716	42,565	107,201	131,603	13,085	274,414	855,584
Disposals	(67,290)	(2,914)	(60,311)	(44,201)	(3,080)	–	(177,796)
Depreciation provided during the year	(65,036)	(13,554)	(167,397)	(71,423)	(16,880)	–	(334,290)
Transfers	149,407	25,730	109,590	23,381	–	(308,108)	–
Exchange realignment	1,302	773	(2,962)	(3,584)	434	(6,722)	(10,759)
At 31 December 2005, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 31 December 2005:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	–	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422

The Group's land and buildings are situated outside of Hong Kong and held under the following lease terms:

	2006 HK$'000	2005 HK$'000
Freehold	**438,022**	500,478
Short term leases	**115,641**	94,495
Medium term leases	**787,555**	988,198
	1,341,218	1,583,171

At 31 December 2006, certain of the Group's buildings with a net book value of HK$92,834,000 (2005: HK$90,090,000) were pledged to secure general banking facilities granted to a subsidiary of the Company (note 36).

18. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 January	**68,063**	58,721
Additions	**25,195**	37,416
Disposals	**–**	(22,724)
Amortised during the year	**(2,543)**	(5,908)
Disposal of subsidiaries (note 42(c))	**(4,836)**	–
Exchange realignment	**2,702**	558
Carrying amount at 31 December	**88,581**	68,063
Current portion included in other receivables (note 30)	**(2,263)**	(5,440)
Non-current portion	**86,318**	62,623

The Group's leasehold land is situated in the PRC and held under the following lease terms:

	2006	2005
	HK$'000	HK$'000
Short term leases	**22,634**	18,225
Medium term leases	**65,947**	49,838
	88,581	68,063

19. GOODWILL

Group

	HK$'000
Cost and carrying amount at 1 January and 31 December 2005	206,639
Cost and carrying amount at 1 January 2006	206,639
Acquisition of minority interests (note 42(a))	63,138
Disposal of subsidiaries (note 42(c))	(150,139)
Cost and carrying amount at 31 December 2006	119,638

As further detailed in note 3.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001 to remain eliminated against consolidated capital reserve.

At 31 December 2006, the amount of goodwill remaining in consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2005: HK$1,819,000), representing its cost.

Notes to Financial Statements

31 December 2006

19. GOODWILL (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the PRC television products cash-generating unit for impairment testing.

The carrying amount of goodwill allocated to the PRC television products cash-generating unit is as follows:

	PRC television products	
	2006	2005
	HK$'000	HK$'000
Carrying amount of goodwill	**119,638**	56,500

PRC television products cash-generating unit

The recoverable amount of the PRC television products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 7.6% (2005: 8%) and cash flows beyond the five-year period are extrapolated using a steady growth rate.

Management has determined the budgeted gross margins based on past performance and its expectation for market development. The discount rates used are before tax and reflect specific risks relating to the relevant units.

20. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2006:			
Cost at 1 January 2006, net of accumulated amortisation	**14,060**	**77,933**	**91,993**
Amortisation provided during the year	**(3,928)**	**(2,536)**	**(6,464)**
Impairment during the year	–	**(19,137)**	**(19,137)**
Exchange realignment	–	**1,392**	**1,392**
At 31 December 2006	**10,132**	**57,652**	**67,784**
At 31 December 2006:			
Cost	**15,695**	**90,890**	**106,585**
Accumulated amortisation and impairment	**(5,563)**	**(33,238)**	**(38,801)**
Net carrying amount	**10,132**	**57,652**	**67,784**
31 December 2005:			
At 1 January 2005:			
Cost	–	34,201	34,201
Accumulated amortisation	–	(7,695)	(7,695)
Net carrying amount	–	26,506	26,506
Cost at 1 January 2005, net of accumulated amortisation	–	26,506	26,506
Additions	15,695	57,764	73,459
Amortisation provided during the year	(1,635)	(3,156)	(4,791)
Exchange realignment	–	(3,181)	(3,181)
At 31 December 2005	14,060	77,933	91,993
At 31 December 2005:			
Cost	15,695	87,667	103,362
Accumulated amortisation	(1,635)	(9,734)	(11,369)
Net carrying amount	14,060	77,933	91,993

Notes to Financial Statements
31 December 2006

20. OTHER INTANGIBLE ASSETS (Continued)

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$56,598,000 (2005: HK$56,598,000) which have indefinite useful lives. These trademarks are treated as having an indefinite useful life because, in the opinion of the directors, there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

The recoverable amounts of these trademarks have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 11% (2005: 15%) and cash flows beyond the five-year period are extrapolated using a steady growth rate. The projected cash flows are determined by estimated future revenue based on management expectations for market development.

21. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**3,385,297**	3,385,297
Due from subsidiaries	**1,641,242**	2,304,412
Due to subsidiaries	**(227,602)**	(45,931)
Capital contribution in respect of employee share-based compensation	**25,295**	16,084
	4,824,232	5,659,862
Impairment	**(2,206,501)**	–
	2,617,731	5,659,862
Less: Portion of amounts due from subsidiaries classified as current assets	**(1,460,514)**	(2,150,804)
	1,157,217	3,509,058

The balances with subsidiaries are unsecured and interest-free, and have no fixed terms of repayment, except for the balances due from TTE and its subsidiaries amounting to HK$1,460,514,000 (2005: HK$2,150,804,000) which are unsecured and repayable on demand, and of which HK$1,253,471,000 (2005: HK$1,675,516,000) bears interest at 1.05% per annum above inter-bank offer rates (2005: 0.6% per annum above inter-bank offer rates).

The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

21. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	**70**	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited**	PRC	RMB88,130,825	**100**	100	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$25,452,000	**100**	100	Manufacture of audio-visual products
TTE Corporation@	British Virgin Islands/ Hong Kong	US$10,000	**100**	100	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	**100**	100	Manufacture and sale of audio-visual products
TTE Europe SAS	France	Euro159,394,580	**100**	100	Trading of audio-visual products and components
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000,000	**100**	100	Manufacture and sale of audio-visual products
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	**70**	70	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	**100**	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	**100**	100	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	**100**	100	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	**100**	100	Investment holding

Notes to Financial Statements

31 December 2006

21. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
TTE Belgium	Belgium	Euro61,500	**100**	100	Investment holding
TCL International Electronics (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TTE (North America) Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR246,087,489	**100**	100	Trading of audio-visual products and components
TCL Information Technology Industrial (Group) Co., Ltd.@	British Virgin Islands/ Hong Kong	US$4,500,000	**100**	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**	PRC	HK$95,000,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	**100**	100	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	**100**	100	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	**70**	70	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	**100**	100	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	**100**	100	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	100	Trading of audio-visual products and components

Notes to Financial Statements
31 December 2006

21. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company 2006	2005	Principal activities
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	**100**	100	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	**100**	100	Manufacture and sale of audio-visual products
TCL-Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	**100**	100	Trading of audio-visual products and components
TCL-Thomson Electronics Polska S.P. Zo.o	Poland	PLN92,463	**100**	100	Manufacture of audio-visual products
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US$22,103,000	**100**	100	Manufacture of audio-visual products
TTE Technology Canada Limited	Canada	CAD816,000	**100**	100	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$75,954,000	**100**	100	Trading of audio-visual products and components
TCL Russia LLC	Russia	RUB3,000,000	**100**	100	Trading of audio-visual products and components
TCL Go Video	Cayman Islands/ USA	US$0.1	**100**	100	Intellectual property holding

@ Direct subsidiaries of the Company

* Registered as wholly-foreign-owned enterprises under the PRC law

** Registered as Sino-foreign joint ventures under the PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 December 2006

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets	**110,444**	157,088

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 28 and 33 to the financial statements, respectively.

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

Name	Particulars of issued shares/ registered capital	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Henan TCL-Melody Electronics Co., Ltd.	US$16,550,000	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Ordinary shares of PHP100 each	Philippines	50	50	50	Trading of audio-visual products

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2006 HK$'000	2005 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**132,984**	178,406
Non-current assets	**17,494**	46,414
Current liabilities	**(38,016)**	(65,897)
Non-current liabilities	**(2,018)**	(1,835)
Net assets	**110,444**	157,088
Share of the jointly-controlled entities' results:		
Turnover	**666,267**	773,229
Other revenue	**887**	2,204
Total revenue	**667,154**	775,433
Total expenses	**(662,419)**	(765,091)
Tax	**(1,146)**	(1,130)
Profit after tax	**3,589**	9,212

23. INTERESTS IN AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**69,566**	–

Particulars of the associate is as follows:

Name	Particulars of registered capital	Place of registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
TCL Finance Co., Ltd	RMB500,000,000	PRC	14	Provision of financial services

The Group's shareholding in TCL Finance is held through an indirectly wholly-owned subsidiary of the Company.

Although the Group holds less than 20% of the voting power of TCL Finance, in the opinion of the directors, the Group is in a position to exercise significant influence over TCL Finance through its representation on the board of directors and its participation in policy-making processes of TCL Finance.

TCL Finance has been accounted for using the equity method in these financial statements, and the financial year end of TCL Finance is coterminous with that of the Group.

The following table illustrates the summarised financial information of TCL Finance extracted from its financial statements:

	2006	2005
	HK$'000	HK$'000
Assets	**582,740**	–
Liabilities	**85,840**	–
Revenues	**5,422**	–
Loss	**(502)**	–

Notes to Financial Statements

31 December 2006

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investments, at cost	**5,055**	15,831
Provision for impairment	**(2,730)**	(1,058)
	2,325	14,773

The Group's available-for-sale investments represent investments in unlisted equity securities in the PRC. In the opinion of the directors, the fair value of these unlisted equity investments cannot be reliably measured because (a) they do not have quoted market prices in an active market; (b) the range of reasonable fair value estimates is significant for these investments; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, all these unlisted equity securities are stated at cost less any impairment losses.

25. LONG TERM RECEIVABLES

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Angers Factory Assets	(a)	–	147,154
Trademark fee reinvestment	(b)	–	81,151
Restructuring costs reimbursement receivable from Thomson	35	–	54,338
Trade receivables	28	–	76,131
		–	358,774

Notes:

(a) Pursuant to the Agreement relating to Thomson Television Angers dated 30 July 2004 (as amended and restated by the Amended and Restated Agreement (Angers) dated 1 September 2005 (the "Amended Angers Agreement")), TTE shall purchase certain existing assets and new assets of the Angers Factory owned by Thomson (the "Angers Factory Assets") with an aggregate fair value of Euro16 million for a nominal consideration of Euro1 within five years from 30 July 2004.

According to the Settlement Term Sheet and the Master Agreement and as further amended by the Amendment to Amended and Restated Agreement (Angers) dated 13 February 2007, Thomson agreed to pay to TTE the amount of Euro15 million (the "Assets Settlement") in lieu of, and in full satisfaction and discharge of, any outstanding obligations of Thomson in respect of the Angers Factory Assets.

According to the Settlement Term Sheet and the Master Agreement, the Assets Settlement was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37), and the loss of approximately HK$10 million arising from the Assets Settlement was charged to the income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

25. LONG TERM RECEIVABLES (Continued)

(b)

	Group	
	2006	2005
	HK$'000	HK$'000
Total at 31 December	–	106,786
Less: Portion classified as current assets (note 30)	–	(25,635)
Non-current portion	–	81,151

Pursuant to the Thomson Trademark License Agreement dated 30 July 2004 (the "Original Trademark Agreement"), Thomson is required to reinvest the trademark fee receivable from TTE in respect of the sales of certain Thomson-owned brands televisions for the period from the second until the fifth anniversaries (the "Reinvestment Period") after the closing (i.e. 30 July 2004) of the Combination Agreement dated 28 January 2004 (the "Combination Agreement") in general brand awareness advertising compaigns for such brands for the benefits of TTE (hereafter referred to as the "Advertising Obligations").

The Original Trademark Agreement was restated and replaced by the Amended and Restated Thomson Trademark License Agreement dated 1 July 2006 (the "Amended Trademark Agreement"). Pursuant to the Amended Trademark Agreement and as further supplemented by the terms of the Settlement Term Sheet, Thomson agreed to compensate the Group Euro10 million (the "Compensation") for the restructuring of the Original Trademark Agreement. As a result of the restructuring, Thomson was fully released and discharged from the Advertising Obligations. According to the Settlement Term Sheet and the Master Agreement, the Compensation was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37), and the difference of approximately HK$11 million was charged to the Group's income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

Notes to Financial Statements

31 December 2006

26. PREPAID ROYALTY

	Group	
	2006	2005
	HK$'000	HK$'000
Total at 31 December	**286,539**	603,425
Less: Portion classified as current assets (note 30)	**(16,943)**	(39,751)
Non-current portion	**269,596**	563,674

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

Pursuant to the Settlement Term Sheet and the Master Agreement, Thomson agreed to repay TTE an amount of Euro30.4 million (the "Partial Royalty Repayment") in respect of the portion of the Prepaid Royalty Amount that TTE has allocated to TTE Europe. The Partial Royalty Repayment was settled partly by cash and partly by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 37). A loss of approximately HK$43 million arose from this settlement. The loss was charged to the Group's income statement for the year ended 31 December 2006 and was included as "Net gain arising from the Settlement Term Sheet" as detailed in note 7 to the financial statements.

27. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**848,461**	1,495,297
Work in progress	**271,349**	319,628
Finished goods	**2,087,109**	2,784,414
	3,206,919	4,599,339

At 31 December 2006, certain of the Group's raw materials, work in progress and finished goods with net book values of HK$34,361,000 (2005: Nil), HK$1,174,000 (2005: Nil) and HK$17,757,000 (2005: Nil), respectively, were pledged to secure general banking facilities granted to a subsidiary of the Group *(note 36)*.

Notes to Financial Statements

31 December 2006

28. TRADE AND BILLS RECEIVABLES

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Due from third parties:			
Trade receivables		**3,053,823**	5,191,517
Bills receivable		**496,755**	785,466
		3,550,578	5,976,983
Due from related parties:			
The ultimate holding company	29	**1,987**	30,004
Companies controlled by TCL Corporation	29	**12,291**	34,707
Thomson and companies controlled by Thomson (collectively the "Thomson Group")	29	**10,565**	41,765
Jointly-controlled entities	29	**19,709**	29,645
		44,552	136,121
Total		**3,595,130**	6,113,104
Less: Portion classified as non-current assets	25	**–**	(76,131)
Current portion		**3,595,130**	6,036,973

The majority of the Group's sales in the PRC were made on the cash-on-delivery basis and on commercial bills guaranteed by banks with credit periods ranging from 30 to 90 days. For overseas sales, the Group usually requires settlement by letters of credit with tenures ranging from 90 to 180 days. Sales to certain long term strategic customers were made on the open-account basis with credit terms of no more than 180 days. The Group also entered into certain receivables purchase agreements with its banks and a factoring company. Pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks and the factoring company.

In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Notes to Financial Statements

31 December 2006

28. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**3,274,377**	5,593,526
91 to 180 days	**163,770**	124,902
181 to 365 days	**119,421**	247,726
Over 365 days	**37,562**	146,950
	3,595,130	6,113,104

At 31 December 2006, the Group's trade receivables of HK$764,384,000 (2005:HK$1,110,972,000) (the "Factored Receivables") were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognise the Factored Receivables in the balance sheet because, in the opinion of the directors, the Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money, as at the balance sheet date.

Moreover, at 31 December 2005, the Group discounted bills receivables of HK$20,082,000 to a bank with recourse (the "Discounted Bills"). The Discounted Bills were included in the above balance of bills receivables at 31 December 2005 because the derecognition criteria for financial assets were not met.

Accordingly, the advances from the relevant banks of HK$764,384,000 (2005: HK$828,433,000) received by the Group as consideration for the Factored Receivables and the Discounted Bills at the balance sheet dates and the advances of HK$302,621,000 from a factoring company as consideration for the Factored Receivables at 31 December 2005 were recognised as liabilities, and they are included in "Interest-bearing bank and other borrowings"(note 36).

29. DUE FROM/TO THE ULTIMATE HOLDING COMPANY/ COMPANIES CONTROLLED BY TCL CORPORATION/THE THOMSON GROUP/JOINTLY-CONTROLLED ENTITIES

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount of HK$281,747,000 (2005: HK$717,863,000) due to the ultimate holding company which bears interest at 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China).

30. OTHER RECEIVABLES

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments, deposits and other receivables		**708,061**	1,199,517	**1,826**	14,095
Prepaid land lease payments	18	**2,263**	5,440	**–**	–
Trademark fee reinvestment	25(b)	**–**	25,635	**–**	–
Prepaid royalty	26	**16,943**	39,751	**–**	–
Due from the Thomson Group (note)		**160,766**	–	**–**	–
Due from the ultimate holding company	29	**1,187**	–	**1,187**	–
Restructuring costs reimbursement receivable from Thomson	35	**37,705**	–	**–**	–
		926,925	1,270,343	**3,013**	14,095

Note: The balance represented the net amount receivable from the Thomson Group arising from the Settlement Term Sheet and the Master Agreement. It was fully settled by the Thomson Group on 16 February 2007.

31. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities listed in Hong Kong	**–**	9,941	**–**	9,941
Call Option (note)	**–**	37,653	**–**	37,653
At 31 December, at market value	**–**	47,594	**–**	47,594

The above equity investments at 31 December 2005 were classified as held for trading.

Note: The call option was granted by Thomson pursuant to the Common Stock Call Option Agreement dated 30 July 2004 and is exercisable during the period from 1 November 2004 to 31 October 2006 for the purchase of 2.5 million shares of common stock of Thomson from Thomson at an exercise price of Euro18.12 per share (the "Call Option"). The fair value of the Call Option at 31 December 2005 was estimated by the directors using the binomial model, taking into account the terms and conditions upon which the Call Option was granted. The Call Option was not exercised by the Company and lapsed on 31 October 2006.

Notes to Financial Statements

31 December 2006

32. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total cash and bank balances	**1,904,633**	1,952,122	**5,041**	12,396
Less: Time deposits pledged for banking facilities (note 36)	**(10,000)**	(90,165)	**–**	–
Cash and bank balances	**1,894,633**	1,861,957	**5,041**	12,396

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances and the pledged deposits approximate to their fair values.

Included in the Group's cash and bank balances are deposits of HK$62,056,000 (2005: Nil) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.72% per annum, being the saving rate offered by the People's Bank of China. Further details of the interest income attributable to the deposits with TCL Finance are set out in note 47 to the financial statements.

Included also in the Group's cash and bank balances is a balance of HK$50,963,000 (2005: Nil) held in an escrow bank account which is designated to finance the termination costs in respect of the employees of the EU Business in France.

33. TRADE AND BILLS PAYABLES

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Due to third parties:			
Trade payables		**3,810,491**	5,300,868
Bills payable		**403,752**	978,540
		4,214,243	6,279,408
Due to related parties:			
Companies controlled by TCL Corporation	29	**225,066**	226,011
The Thomson Group	29	**58,391**	242,159
Jointly-controlled entities	29	**144,615**	119,564
		428,072	587,734
		4,642,315	6,867,142

33. TRADE AND BILLS PAYABLES (Continued)

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current to 90 days	**4,580,604**	6,547,730
91 to 180 days	**35,744**	77,039
181 to 365 days	**25,967**	197,155
Over 365 days	**–**	45,218
	4,642,315	6,867,142

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

34. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables and accruals	(a)	**2,042,594**	1,869,632	**17,333**	51,804
Due to the immediate holding company	(b)	**36,040**	47,039	**36,040**	47,039
Due to companies controlled by TCL Corporation	29	**20,901**	–	**2,031**	–
		2,099,535	1,916,671	**55,404**	98,843

Notes:

(a) The other payables are non-interest-bearing and are expected to be settled within one year.

(b) The amount due to the immediate holding company is unsecured, interest-free and repayable on demand, except for a balance of HK$34,991,000 (2005: HK$46,652,000) which bears interest at 3.084% per annum, being the six-month LIBOR on the inception date of the advances.

Notes to Financial Statements
31 December 2006

35. PROVISIONS

Group

	Restructuring costs HK$'000	Warranties HK$'000	Total HK$'000
At 31 December 2005 and 1 January 2006	51,427	145,975	197,402
Arising during the year	517,251	698,334	1,215,585
Utilised during the year	(126,902)	(507,625)	(634,527)
Deconsolidation of a subsidiary (note 42(d))	(4,652)	–	(4,652)
Exchange realignment	19,753	11,767	31,520
At 31 December 2006	456,877	348,451	805,328

Restructuring costs

Pursuant to the Restructuring Cost Reimbursement Agreement dated 30 July 2004 (as supplemented and amended by the Reimbursement Agreement Amendment dated 1 September 2005), Thomson agreed to reimburse TTE up to Euro38 million of restructuring costs incurred within the first two years of the closing date (i.e. 30 July 2004) of the Combination Agreement in relation to the injection of the Thomson television businesses into TTE, subject to certain adjustment as may be agreed by the parties. The restructuring costs recoverable from Thomson during the year of HK$9,415,000 (2005: HK$164,587,000) were credited directly to restructuring costs in the income statement.

Moreover, according to the relevant agreements, a portion of the reimbursement shall be reimbursed by Thomson six months after 30 July 2006. As such, the relevant portion of the reimbursement was classified as a non-current asset in the balance sheet as at 31 December 2005.

During the year, the Group had implemented a number of measures in restructuring the EU Business and finally, after the conclusion of the Settlement Term Sheet, the Group decided to restructure and reposition its presence in Europe by significantly winding down the EU Business and building up a new business model. Details of the net costs in connection with the restructuring and winding-down of the EU Business charged to the Group's income statement were set out in note 7 to the financial statements.

Warranties

The Group provides warranties ranging from three months to three years to its customers on certain of its electronic products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006 Effective Interest rate (%)	2006 Maturity	2006 HK$'000	2005 Effective interest rate (%)	2005 Maturity	2005 HK$'000
Current						
Bank overdrafts – secured	WIBOR+1.0	2007	53,048	5.6	2006	83,472
Bank overdrafts – unsecured	LIBOR/EURIBOR+0.6	2006	–	LIBOR/EURIBOR+0.6	2006	57,995
Bank loans – secured	WIBOR+1.0	2007	6,475	4.5	2006	19,382
Bank loans – unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300
Bank loans – unsecured	4.3 to 7.1	2007	412,159	3.1 to 5.6	2006	328,625
Advances from banks as consideration for Factored Receivables and Discounted Bills	LIBOR+(0.3 to 0.5)	2007	764,384	LIBOR+(0.3 to 0.5)	2006	828,433
Advances from a factoring company as consideration for Factored Receivables	EURIBOR+0.5	2006	–	EURIBOR+0.5	2006	302,621
Trust receipt loans – secured	SIBOR+1	2007	6,785	HIBOR/SIBOR/ LIBOR+(0.4 to 1.7)	2006	48,706
Trust receipt loans – unsecured	LIBOR+(0.7 to 1.0)	2007	79,327	HIBOR+(0.5 to 1.5)	2006	273,511
Loan from TCL Finance	5.3	2007	187,027	–	–	–
Other loan	3	On demand	36,546	–	–	–
			2,660,582			3,481,045

Company

	2006 Effective Interest rate (%)	2006 Maturity	2006 HK$'000	2005 Effective interest rate (%)	2005 Maturity	2005 HK$'000
Current						
Bank loans – unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300
Other loan	3	On demand	36,546	–	–	–
			1,151,377			1,538,300

Notes to Financial Statements

31 December 2006

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Analysed into:				
Bank loans and overdrafts repayable within				
one year or on demand	**2,437,009**	3,178,424	**1,114,831**	1,538,300
Other borrowings repayable within one year	**223,573**	302,621	**36,546**	–
	2,660,582	3,481,045	**1,151,377**	1,538,300

Notes:

(a) The Group's overdraft facilities amounting to HK$53,048,000 (2005: HK$175,443,000), all of which (2005: HK$141,467,000) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's time deposits, property, plant and equipment, and inventories amounting to HK$Nil (2005: HK$59,911,000), HK$Nil (2005: HK$90,090,000), and HK$53,292,000 (2005: Nil), respectively.

(b) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits and items of property, plant and equipment amounting to HK$10,000,000 (2005: HK$30,254,000) and HK$92,834,000 (2005: Nil), respectively.

(c) As at 31 December 2006, the carrying amounts of the Group's and the Company's bank and other borrowings approximated to their fair values.

(d) Except for the unsecured bank loans with an aggregate carrying amount of HK$412,159,000 (2005: HK$328,625,000), the loan from TCL Finance of HK$187,027,000 (2005: Nil) and the other loan of HK$36,546,000 (2005: Nil), all other borrowings of the Group bear interest at floating rates.

In addition, the Company's ultimate holding company has guaranteed certain of the Group's bank loans up to HK$315,657,000 (2005: HK$91,267,000) as at the balance sheet date.

Included in bank loans are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**1,198,656**	1,606,655	**629,840**	837,335
Euro	**426,167**	574,718	**426,167**	512,730
Japanese Yen	**–**	561	**–**	–

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Breach of loan covenants

As at 31 December 2006, in respect of the Syndication Loans with an aggregate carrying amount of HK$1,114,831,000 (2005: HK$1,538,300,000), the Group breached certain of the financial covenants of the relevant loan agreements, which are primarily related to the value of the Group's consolidated tangible net worth, interest cover ratio and current ratio. On discovery of the breach, the directors of the Company informed the lenders but no renegotiation of the terms of the Syndication Loans was initiated since the Group is planning to settle the Syndication Loans in full in July 2007.

Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the Syndication Loans have been classified as current liabilities in these financial statements at 31 December 2006.

37. DUE TO A SHAREHOLDER

The loan as at 31 December 2005 was due to Thomson, borne interest at rates ranging from 2.36% to 4.26% per annum (being the cost of fund of Thomson) and was secured by the Group's trade receivables with a carrying value of HK$536,364,000. This loan amount should have been fully repaid on 30 July 2006 and the related agreement was terminated automatically.

Pursuant to the Settlement Term Sheet and the Master Agreement, the outstanding and overdue sum related to this loan as at 31 August 2006 amounting to approximately Euro46 million (equivalent to approximately HK$472 million) was settled by way of offsetting the Assets Settlement, the Compensation and the Partial Royalty Repayments as further discussed in notes 25(a), 25(b) and 26, respectively.

38. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2005		33,989
Deferred tax credited to the income statement during the year	12	(9,769)
Exchange realignment		(163)
Gross deferred tax liabilities at 31 December 2005 and 1 January 2006		24,057
Deferred tax credited to the income statement during the year	12	(2,278)
Exchange realignment		129
Gross deferred tax liabilities at 31 December 2006		21,908

Notes to Financial Statements

31 December 2006

38. DEFERRED TAX (Continued)

Deferred tax assets

Group

	Notes	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Pension provisions HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2005		5,300	5,177	8,106	–	18,583
Deferred tax credited to the income statement during the year	12	2,000	6,515	981	782	10,278
Exchange realignment		–	(102)	(1,037)	(32)	(1,171)
Gross deferred tax assets at 31 December 2005 and 1 January 2006		7,300	11,590	8,050	750	27,690
Deconsolidation of a subsidiary	42(d)	–	–	(7,671)	–	(7,671)
Deferred tax credited/(charged) to the income statement during the year	12	2,000	(3,845)	(1,265)	2,029	(1,081)
Exchange realignment		–	754	886	100	1,740
Gross deferred tax assets at 31 December 2006		9,300	8,499	–	2,879	20,678

The Group has tax losses of HK$3,739,284,000 (2005: HK$1,687,303,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or an associate.

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

Notes to Financial Statements

31 December 2006

39. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefits plans in certain locations, covering its employees. The Group also has agreed to provide certain additional post-employment healthcare benefits to employees in certain locations. These benefits are unfunded.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the amounts recognised in the consolidated balance sheet for the plans.

	2006 HK$'000	2005 HK$'000
Net benefit expense		
Current service cost	**33,399**	21,469
Interest cost on benefit obligation	**782**	5,899
Net cumulative actuarial gain recognised in the income statement	**(6,111)**	(3,489)
Net benefit expense	**28,070**	23,879
Benefit liabilities		
Benefit obligation	**15,280**	167,088
Unrecognised net actuarial losses/(gains)	**2,891**	(1,473)
Benefit liabilities	**18,171**	165,615

Movements in the benefit liabilities during the year are as follows:

	2006 HK$'000	2005 HK$'000
At 1 January	**165,615**	130,050
Acquisition of subsidiaries (note 42(b))	**–**	29,992
Deconsolidation of a subsidiary (note 42(d))	**(87,161)**	–
Benefit expense (note 9)	**28,070**	23,879
Contributions	**(30,478)**	(3,731)
Curtailments	**(68,089)**	–
Exchange realignment	**10,214**	(14,575)
At 31 December	**18,171**	165,615

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

	2006 %	2005 %
Discount rate	**4.5 – 5.25**	2.5 – 4.0
Future salary increases	**2.0 – 5.0**	2.0 – 5.0
Future pension increases	**1.0**	1.0
Healthcare cost increase rate	**5.0 – 9.5**	5.0 – 9.5

Notes to Financial Statements

31 December 2006

40. SHARE CAPITAL

Shares

	Company 2006 HK$'000	Company 2005 HK$'000
Authorised:		
8,000,000,000 (2005: 5,000,000,000) shares of HK$0.10 each	**800,000**	500,000
Issued and fully paid:		
3,902,951,727 (2005: 3,902,951,727) shares of HK$0.10 each	**390,295**	390,295

Pursuant to the resolution passed on 27 February 2006, the authorised share capital of the Company was increased from HK$500,000,000 to HK$800,000,000 by the creation of 3,000,000,000 additional shares of HK$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

During the year, there was no change in issued capital of the Company. A summary of the movements in the Company's issued share capital during the prior year is as follows:

	Numbers of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2005	2,757,960,632	275,796	37,730	313,526
Share options exercised	809,000	81	723	804
Exchange Option exercised	1,144,182,095	114,418	1,521,762	1,636,180
At 31 December 2005, 1 January 2006 and 31 December 2006	3,902,951,727	390,295	1,560,215	1,950,510

Share options

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

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

40. SHARE CAPITAL (Continued)

Share options (Continued)

The eligible participants of the New Scheme include any Employee, adviser, consultant, agent, contractor, client or supplier of any member of the Group or any other person whom the board of directors at its sole discretion considers may contribute or have contributed to the Group.

Pursuant to the New Scheme, the maximum number of shares in respect of which options may be granted under the New Scheme is such number of shares representing 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to the New Scheme and any other scheme).

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

At 31 December 2006, the number of shares issuable under share options granted under the schemes was 135,420,000 (2005: 183,342,861), which represented approximately 3.5% (2005: 4.7%) of the Company's shares in issue as at that date.

Notes to Financial Statements

31 December 2006

40. SHARE CAPITAL (Continued)

Share options (Continued)

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

Name or category of participant	Number of share options: At 1 January 2006	Reclassified during the year	Expired during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options∆	Exercise price of share options HK$ per share	Exercise period of share options	Price of Company's shares at date of grant # HK$ per share	Price of Company's shares immediately before the exercise date HK$ per share	Price of Company's shares at exercise date HK$ per share
Directors											
Executive directors											
Li Dongsheng	5,000,000	–	–	–	5,000,000	31 May 2005	1.400	Note 3	1.410	–	–
Lu Zhongli	2,500,000	–	–	–	2,500,000	31 May 2005	1.400	Note 3	1.410	–	–
Hu Qiusheng	2,500,000	(2,500,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
Yan Yong, Vincent	68,000	–	(68,000)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	3,450,000	(3,450,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	3,518,000	(3,450,000)	(68,000)	–	–						
Wang Kangping	–	100,000	(100,000)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	–	1,400,000	–	–	1,400,000	31 May 2005	1.400	Note 3	1.410	–	–
	–	1,500,000	(100,000)	–	1,400,000						
Shi Wanwen	–	2,600,000	–	–	2,600,000	31 May 2005	1.400	Note 3	1.410	–	–
Yuan Bing	–	330,000	–	–	330,000	31 May 2005	1.400	Note 3	1.410	–	–
Zhao Zhongyao	68,000	(68,000)	–	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	3,200,000	(3,200,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	3,268,000	(3,268,000)	–	–	–						
	16,786,000	(4,788,000)	(168,000)	–	11,830,000						

40. SHARE CAPITAL (Continued)

Share options (Continued)

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

Name or category of participant	Number of share options: At 1 January 2006	Reclassified during the year	Expired during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options∆	Exercise price of share options HK$ per share	Exercise period of share options	Price of Company's shares at date of grant # HK$ per share	Price of Company's shares immediately before the exercise date HK$ per share	Price of Company's shares at exercise date HK$ per share
Non-executive directors											
Albert Thomas da Rosa, Junior	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Tang Guliang	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Wang Bing	300,000	–	–	–	300,000	31 May 2005	1.400	Note 3	1.410	–	–
Hon Fongming, Perry	300,000	(300,000)	–	–	–	31 May 2005	1.400	Note 3	1.410	–	–
	1,200,000	(300,000)	–	–	900,000						
Other employees											
	10,000,000	–	(10,000,000)	–	–	4 November 2002	2.305	Note 1	2.175	–	–
	20,286,861	(32,000)	(20,254,861)	–	–	30 January 2003	2.114	Note 2	2.075	–	–
	135,070,000	5,120,000	–	(17,500,000)	122,690,000	31 May 2005	1.400	Note 3	1.410	–	–
	165,356,861	5,088,000	(30,254,861)	(17,500,000)	122,690,000						
	183,342,861	–	(30,422,861)	(17,500,000)	135,420,000						

Notes to Financial Statements

31 December 2006

40. SHARE CAPITAL (Continued)

Share options (Continued)

Note 1 Such share options were exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 2 One-third of such share options was exercisable after the expiry of 9 months from the date of grant, a further one-third was exercisable after the expiry of 18 months from the date of grant, and the remaining one-third was exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 3 One-third of such share options is exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 30 November 2008.

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

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

The fair value of the share options granted in the prior year was HK$57,081,000. The fair value of equity-settled share options granted in prior year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2005.

Dividend yield (%)	3.00 per annum
Expected volatility (%)	40.00 per annum
Historical volatility (%)	50.00 per annum
Risk-free interest rate (%)	3.16 per annum
Expected life of option (year)	3.50
Weighted average share price (HK$)	1.50

The expected life of the options is based on the historical data over the past four years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Notes to Financial Statements

31 December 2006

41. RESERVES

Group

	Attributable to equity holders of the parent								
	Share premium account HK$'000	Share option reserve HK$'000	Capital reserve^ HK$'000	Reserve funds* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	37,730	14,814	59,099	487,712	99,399	2,503,872	3,202,626	1,422,082	4,624,708
Set-off of goodwill arising from the Share Exchange (note 42(a))	–	–	–	–	–	(520,725)	(520,725)	–	(520,725)
Issue of shares upon exercise of share options (note 40)	723	–	–	–	–	–	723	–	723
Issue of shares upon exercise of the Exchange Option (note 40)	1,521,762	–	–	–	–	–	1,521,762	–	1,521,762
Exchange realignment	–	–	–	–	(33,933)	–	(33,933)	(28,867)	(62,800)
Loss for the year	–	–	–	–	–	(598,893)	(598,893)	(104,374)	(703,267)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(21,110)	(21,110)
Acquisition of minority interests (note 42(a))	–	–	–	–	–	–	–	(1,159,255)	(1,159,255)
Equity-settled share option arrangements	–	28,661	–	–	–	–	28,661	–	28,661
Transfer from retained profits	–	–	–	81,074	–	(81,074)	–	–	–
At 31 December 2005 and 1 January 2006	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697
Exchange realignment	–	–	–	–	85,669	–	85,669	3,465	89,134
Loss for the year	–	–	–	–	–	(2,497,314)	(2,497,314)	(3,158)	(2,500,472)
Disposal of subsidiaries (note 42(c))	–	–	–	–	–	–	–	(19,907)	(19,907)
Equity-settled share option arrangements	–	22,295	–	–	–	–	22,295	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	–	–	20,376	–	–	–
Transfer from retained profits	–	–	–	99,476	–	(99,476)	–	–	–
At 31 December 2006	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	1,210,871	88,876	1,299,747

Notes to Financial Statements

31 December 2006

41. RESERVES (Continued)

Group (Continued)

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

^ The Group's capital reserve originally represented the difference between the nominal value of the shares of the subsidiaries acquired prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

The amount of goodwill arising on the acquisition of a subsidiary remains eliminated against the capital reserve is explained in note 19 to the financial statements.

Company

	Share premium account HK$'000	Share option reserve[Δ] HK$'000	Capital reserve[#] HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2005	37,730	14,814	738,936	1,654,092	2,445,572
Issue of shares upon exercise of share options (note 40)	723	–	–	–	723
Issue of shares upon the exercise of the Exchange Option (note 40)	1,521,762	–	–	–	1,521,762
Equity-settled share option arrangements	–	28,661	–	–	28,661
Loss for the year	–	–	–	(296,037)	(296,037)
At 31 December 2005 and 1 January 2006	1,560,215	43,475	738,936	1,358,055	3,700,681
Equity-settled share option arrangements	–	22,295	–	–	22,295
Share options expired/lapsed during the year	–	(20,376)	–	20,376	–
Loss for the year	–	–	–	(2,700,095)	(2,700,095)
At 31 December 2006	1,560,215	45,394	738,936	(1,321,664)	1,022,881

Δ The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

\# The capital reserve arose as a result of the Group reorganisation in 1999 and represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of minority interests

(i) For the year ended 31 December 2006

During the year, the Group acquired the remaining 49% equity interest in TCL Electrical Appliance Sales Co., Ltd. (the "Sales Company") owned by TCL Corporation. This acquisition was completed on 10 May 2006 and the consideration has not been settled as at 31 December 2006. Further details of this transaction are included in note 47 to the financial statements.

The carrying amount of the 49% equity interest in the Sales Company as at the date of acquisition and the goodwill arose from the acquisition were as follows:

	HK$'000
Carrying amount	–
Goodwill	63,138
	63,138
Satisfied by:	
Due to the ultimate holding company	63,138

(ii) For the year ended 31 December 2005

On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004, Thomson exercised the exchange option (the "Exchange Option") to exchange its 33% equity interest in TTE for shares in the Company (the "Share Exchange").

The Share Exchange represented an acquisition of minority interests in TTE by the Company from Thomson.

The carrying amount of the 33% equity interest in TTE immediately before the Share Exchange and the fair value of the shares of the Company issued on 10 August 2005 were as follows:

	HK$'000
Carrying amount of the 33% equity interest in TTE	1,159,255
Goodwill arising from the Share Exchange	520,725
	1,679,980
Satisfied by:	
Issue of shares of the Company at fair value (note 40)	1,636,180
Cash	43,800
	1,679,980

The goodwill arising from the Share Exchange was set off against the negative goodwill (HK$548,016,000 as at 1 January 2005) arising from the Combination Agreement in 2004 because, in the opinion of the directors, the Share Exchange was part of the Combination Agreement and was interrelated and indivisible with the business combination associated with the Combination Agreement in 2004. Since the negative goodwill has been eliminated against the opening balance of retained profits at 1 January 2005 upon the adoption of HKFRS 3, the set-off of this goodwill was accounted for as a reserve movement for the year.

Notes to Financial Statements

31 December 2006

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

(b) Business combination

In the prior year, the Group acquired the entire equity interest of certain subsidiaries from Thomson. The subsidiaries acquired are engaged in product sales, marketing and management, the design and styling activities related to television products.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the date of acquisition approximated to their corresponding carrying amounts immediately before the acquisition and were as follows:

	2006 HK$'000	2005 HK$'000
Net assets acquired:		
Trade and bills receivables	–	83,539
Prepayments, deposits and other receivables	–	52,131
Trade and bills payables	–	(77,162)
Other payables and accruals	–	(17,043)
Pensions and other post-employment benefits (note 39)	–	(29,992)
	–	11,473
Satisfied by cash	–	11,473

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

	2006 HK$'000	2005 HK$'000
Cash paid	–	(11,473)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(11,473)

The results of the subsidiaries acquired during the prior year had no significant impact on the Group's consolidated turnover or loss after tax for the year ended 31 December 2005.

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

(c) Disposal of subsidiaries

	Notes	2006 HK$'000	2005 HK$'000
Net assets disposed of:			
Property, plant and equipment	17	303,264	–
Prepaid land lease payments	18	4,836	–
Goodwill	19	150,139	–
Available-for-sale investments		11,858	–
Interest in a jointly-controlled entity		49,494	–
Long term receivables		38,678	–
Inventories		157,500	–
Trade and bills receivables		412,331	–
Other receivables		148,851	–
Tax recoverable		1,219	–
Cash and bank balances		16,159	–
Trade and bills payables		(276,048)	–
Tax payable		(565)	–
Other payables and accruals		(65,574)	–
Interest-bearing bank and other borrowings		(175,593)	–
Due to Group companies, net		(382,785)	–
Minority interests		(19,907)	–
		373,857	–
Satisfied by cash		373,857	–

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

	2006 HK$'000	2005 HK$'000
Cash consideration	373,857	–
Cash and bank balances disposed of	(16,159)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	357,698	–

Notes to Financial Statements

31 December 2006

42. BUSINESS COMBINATION (Continued)

(d) Deconsolidation of a subsidiary

On 27 November 2006, a provisional administrator was appointed by the German court to secure and manage the assets and operations of TTE Germany GmbH ("TTE Germany"), an indirect wholly-owned subsidiary of the Company, upon a declaration of insolvency was filed by TTE Germany. Formal insolvency proceedings were opened under the court order issued by the German court on 1 February 2007 and up to the date of these financial statements, the insolvency proceedings have not been completed. TTE Germany was deconsolidated on 27 November 2006 because, in the opinion of the directors, the Group was unable to exercise its rights as shareholder either to control the assets and operations or to exercise significant influence over the financial and operating policy decisions of TTE Germany since that day.

	Notes	2006 HK$'000	2005 HK$'000
Net liabilities of TTE Germany:			
Property, plant and equipment	17	5,156	–
Deferred tax assets	38	7,671	–
Other receivables		8,975	–
Tax recoverable		447	–
Cash and bank balances		1,524	–
Due from Group companies, net		69,984	–
Trade and bills payables		(167)	–
Other payables and accruals		(13,903)	–
Provisions	35	(4,652)	–
Pensions and other post-employment benefits	39	(87,161)	–
		(12,126)	–
Gain on deconsolidation of a subsidiary	7	12,126	–
		–	–
Net outflow of cash and bank balances in respect of the deconsolidation of a subsidiary		(1,524)	–

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2006, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**96**	4,314
In the second to fifth years, inclusive	**24**	12,171
	120	16,485

(b) As lessee

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**33,301**	39,944
In the second to fifth years, inclusive	**73,689**	77,679
After five years	**16,449**	16,851
	123,439	134,474

Notes to Financial Statements

31 December 2006

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for	**198**	10,389
Authorised, but not contracted for	**2,529**	–
	2,727	10,389

45. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**2,966,657**	2,927,750
Guarantee given to suppliers in connection with the payment of purchases by subsidiaries	**–**	–	**213,835**	73,654
Guarantees given in lieu of utility and rental deposits	**1,543**	4,446	**–**	–
	1,543	4,446	**3,180,492**	3,001,404

As at 31 December 2006, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$885 million (2005: HK$1,334 million), and the guarantees given to suppliers in connection with the payment of purchases by subsidiaries were utilised to the extent of approximately HK$13 million (2005: HK$24 million).

46. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 17, 27 and 36 to the financial statements.

Notes to Financial Statements

31 December 2006

47. RELATED PARTY TRANSACTIONS

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

	Notes	2006 HK$'000	2005 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**1,030,009**	1,186,725
Sales of finished goods	(ii)	**74,748**	97,642
Purchases of finished goods	(iii)	**1,108,823**	1,280,408
Ultimate holding company:			
Interest expense	(iv)	**18,869**	21,762
Immediate holding company:			
Interest expense	(v)	**1,183**	621
An associate:			
Interest income	(vi)	**4**	–
Interest expense	(vii)	**591**	–
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	**–**	4,654
Sales of finished goods	(ii)	**808**	–
Purchases of raw materials	(iii)	**806,025**	608,839
Purchases of finished goods	(iii)	**53,705**	108,217
Subcontracting fee expense	(viii)	**12,554**	13,066
Interest income	(ix)	**3,387**	–
Rental, maintenance fees and facilities usage fees	(x)	**4,033**	3,035
Rental expense	(xi)	**2,840**	–
Interest expense	(xii)	**985**	–
Reimbursement of brand advertising costs	(xiii)	**59,106**	–
Thomson Group:			
Sales of finished goods	(ii)	**80,063**	293,538
Purchases of raw materials	(iii)	**97,334**	2,077,850
Purchases of finished goods	(xiv)	**–**	838,580
Agency fee and cost reimbursement expense	(xv)	**–**	872,207
Styling service fee expense	(xv)	**–**	21,744
Shared service fee expense	(xv)	**270,213**	241,687
Interest expense	(xvi)	**17,432**	24,783
Patent royalty expense	(xvii)	**15,118**	30,991
Reimbursement of brand advertising costs	(xviii)	**40,357**	14,476
Trademark royalty fee	(xix)	**43,631**	20,025
Strategic sourcing fee expense	(xx)	**–**	27,000
After-sales and related services fee expense	(xv)	**49,476**	16,787
Laboratory service fee expense	(xv)	**3,255**	1,314
Reimbursement of reorganisation costs	(xxi)	**–**	57,903
Subcontracting fee expense	(xxii)	**162,788**	234,285
Styling service fee income	(xxiii)	**2,873**	1,608
Logistics management service fee income	(xxiii)	**1,963**	965

Notes to Financial Statements

31 December 2006

47. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) The sales of raw materials were made at a gross margin of 0-1%.

(ii) The sales of finished goods were made by reference to the prevailing market price for comparable transactions.

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

(iv) The interest was charged at a rate of 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China).

(v) The interest was charged at a rate of 3.08% per annum, being the 6-month LIBOR on the inception date of the advances.

(vi) The interest was charged at a rate of 0.72% per annum, being the saving rate offered by the People's Bank of China.

(vii) The interest was charged at a rate of 5% discount on the 6-month loan interest rate offered by the People's Bank of China.

(viii) The subcontracting fee was determined by reference to subcontracting fees charged by third party companies offering similar services.

(ix) The interest was charged at a premium of 10% to 15% above the loan interest rate within 1 year offered by the People's Bank of China.

(x) The rental, maintenance fees and facilities usage fees were determined with reference to the rates of other similar premises for comparable transactions.

(xi) The rental expense was charged at rates ranging from RMB52 to RMB70 per square metre.

(xii) The interest was charged at a rate of 0.72% per annum, being the savings rate offered by the People's Bank of China.

(xiii) The brand advertising costs represent advertising costs incurred by TCL Corporation Group and were reimbursed by the Group at cost and at a minimum of 0.5% of the aggregate net sales of TV products using TCL A brand as defined in the TCL Trademark License Agreement.

(xiv) The purchases of finished goods were made on terms such that the Group shall incur no loss and realise no profit from the arrangement.

(xv) The agency fee, cost reimbursement expense, styling service fee, shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(xvi) The interest was charged at rates ranging from 3.78% to 6.1% (2005: from 2.36% to 4.26%) per annum, being the cost of fund of Thomson.

(xvii) The patent royalty was charged at rate ranges that are consistent with the rates offered by Thomson Group to other television manufacturers and varied according to the country in which the colour television receivers are manufactured.

47. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(xviii) The brand advertising costs represent advertising costs incurred by Thomson Group and were reimbursed by the Group at cost and at a minimum of 0.5% of the aggregate net sales of TV products using Thomson A brand as defined in the Thomson Trademark License Agreement.

(xix) The trademark royalty fee was charged by Thomson Group at rates of 0.4% and 0.2% for Thomson A Brands and Thomson B Brands, respectively.

(xx) The strategic sourcing fee expense in 2005 was charged at an annual fee of Euro2.85 million (approximately HK$27 million) by Thomson Group, subject to adjustments.

(xxi) The reimbursement of reorganisation costs represents payment by the Group to Thomson to cover the reorganisation costs incurred by Thomson in connection with having an operation mode of Angers Factory acceptable to the Group according to the Amended Angers Agreement. The Group is required to pay a total amount of Euro20 million (equivalent to approximately HK$184 million) over a period of five years, ranging from Euro6 million (equivalent to approximately HK$58 million) in 2005 to Euro2 million (equivalent to approximately HK$18 million) in 2009.

According to the Settlement Term Sheet, the Master Agreement and the Amendment to Amended Angers Agreement dated 13 February 2007, Thomson agreed to waive its right to receive any future payment, including the payment due and payable in 2006, from the Group in respect of the above reimbursement.

(xxii) The subcontracting fee charged by Thomson Group was calculated based on the production cost structure in use at other European factory operations of the Group.

(xxiii) The styling service fee and logistics management service fee were charged by the Group at cost.

(b) Other transactions with related parties:

(i) On 9 March 2006, TCL King Electrical Appliances (Huhehaote) Company Limited ("TCL King Huhehaote"), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with TCL Corporation in relation to the setting up of TCL Finance. Pursuant to the Investment Agreement, TCL King Huhehaote contributed RMB70 million as capital contribution to the TCL Finance, representing 14% of the registered capital of TCL Finance.

TCL Finance was established on 17 October 2006 and further details of this transaction were set out in the Company's announcements dated 9 March 2006 and 27 October 2006.

(ii) On 4 July 2005, the Company and TCL International Electronics (BVI) Limited ("TCLIE"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with TCL Corporation for the acquisition of the remaining 49% equity interest in the Sales Company owned by TCL Corporation at a consideration of Euro6.5 million (equivalent to approximately HK$63 million). This acquisition was completed on 10 May 2006 and the Sales Company became a wholly-owned subsidiary of the Group. Further details of this acquisition were set out in the Company's announcement dated 5 July 2005.

Notes to Financial Statements

31 December 2006

47. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties: (Continued)

(iii) On 21 June 2006, the Company entered into a sale and purchase agreement (the "Disposal Agreement") with T.C.L. Industries and pursuant to which the Company agreed to sell and procure its relevant subsidiaries to sell to T.C.L. Industries (i) the entire issued share capital of Computer Technology; (ii) the entire issued share capital of TCL Education Web Limited; and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. for a total initial consideration of HK$377 million. Completion of the Disposal Agreement took place on 8 September 2006 and the final consideration was adjusted to HK$374 million.

Further details of the Disposal Agreement were set out in the Company's announcements dated 23 June 2006 and 9 November 2006.

(iv) On 25 September 2006, the Company entered into a loan agreement (the "Loan Agreement") with T.C.L. Industries and pursuant to which certain short term loans with an aggregate amount of HK$302 million (the "Loans") were drawn by the Company from T.C.L. Industries for a period of sixty days. The interest on the Loans was charged at 0.5% above the respective inter-bank offer rates of the currency in which the related loans were denominated.

Pursuant to an interest waiver letter issued by T.C.L. Industries dated 31 December 2006, the total interest payable by the Company to T.C.L. Industries in respect of the Loans of approximately HK$3 million was unconditionally waived by T.C.L. Industries.

(v) On 12 October 2006, the TCL Parties entered into the Settlement Term Sheet with the Thomson Parties regarding the resolution of the EU Business, whereby the TCL Parties and the Thomson Parties have agreed to, inter alia, the following reciprocal concessions to alleviate the financial difficulties of the EU Business and pave the way for an amicable wind-down of this loss-making EU Business:

- Thomson to waive approximately Euro15.4 million trade payables owed by TTE Europe;
- Thomson to repay TTE Europe approximately Euro30.4 million in respect of the Prepaid Royalty Amount;
- The TCL Parties and the Thomson Parties to restructure the Original Trademark Agreement and the Thomson Parties to compensate the TCL Parties Euro10 million for the restructuring of the Original Trademark Agreement;
- Thomson to pay to TTE the amount of Euro15 million as full settlement of the Angers Factory Assets; and
- The TCL Parties and the Thomson Parties to terminate/restructure certain cooperative agreements related to the EU Business and settle outstanding balances owed to each party.

47. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties: (Continued)

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Agreement entered into between the TCL Parties and the Thomson Parties. A net gain of HK$87,211,000 was recognised from the above settlements and included in "Costs in connection with the restructuring and winding-down of the EU Business, net" on the face of the consolidated income statement and in note 7 to the financial statements.

Further details of the Settlement Term Sheet were set out in the Company's announcement dated 27 October 2006 and details of the financial impacts of the Settlement Term Sheet and the Master Agreement were set out in notes 7, 25, 26, 37 and 49 to the financial statements.

(c) Details of compensation of key management personnel of the Group are set out in notes 10 and 11 to the financial statements.

Except for the transactions with jointly-controlled entities included in item (a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, convertible notes, other interest-bearing borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.4 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

In general, the Group's treasury department (the "Group Treasury") implements all external financings to meet borrowing needs of all subsidiaries. In some cases, subsidiaries may borrow directly from local banks upon approval from the Group Treasury in advance. At subsidiary level, financing is generally done on a short term floating rate basis. Long term financings are normally done at Group level.

Notes to Financial Statements

31 December 2006

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group Treasury hedges foreign exchange risk on its commercial exposures and financial exposures. For commercial exposures, generally 80% of the exposures must be hedged (but may vary with the historical volatility and country risks) after netting off exposures at Group level. Hedging for commercial exposures is normally in short term nature with a maximum of a six-month period which corresponds to the Group's sales cycle. It is the Group's policy to borrow and invest excess cash in the functional currency of its businesses to minimise its foreign currency exposures.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, factoring and other interest-bearing loans.

49. POST BALANCE SHEET EVENTS

(i) On 13 February 2007, the TCL Parties and the Thomson Parties entered into the Master Agreement which further formalised and set forth the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet. Further details of the Settlement Term Sheet and the Master Agreement were set out in note 47 to the financial statements.

(ii) Pursuant to an ordinary resolution passed in the extraordinary general meeting held on 15 February 2007, a new share option scheme was approved and adopted. Further details of the new share option scheme was set out in the Company's circular dated 29 January 2007.

(iii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

49. POST BALANCE SHEET EVENTS (Continued)

(iv) On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the "Rights Share") on the basis of one Rights Share for every two existing shares (the "Rights Issue"). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007. Further details of the Rights Issue are set out in the Company's announcement dated 15 May 2007.

(v) On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). Further details of the issue of the Bonds are set out in the Company's announcement dated 21 May 2007.

(vi) On 24 May 2007, TTE Europe filed a declaration of insolvency to the French court and the French court appointed a judicial liquidator (the "Liquidator") to take control over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the Liquidator is now the sole person responsible for winding-up TTE Europe by liquidating its assets and making payment to its creditors. The Group will deconsolidate the EU Group on 29 May 2007 from the Group's financial statements for the year ending 31 December 2007. The financial statements of the EU Group for the year ended 31 December 2006 have been prepared under the liquidation basis of accounting.

50. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 14).

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 May 2007.