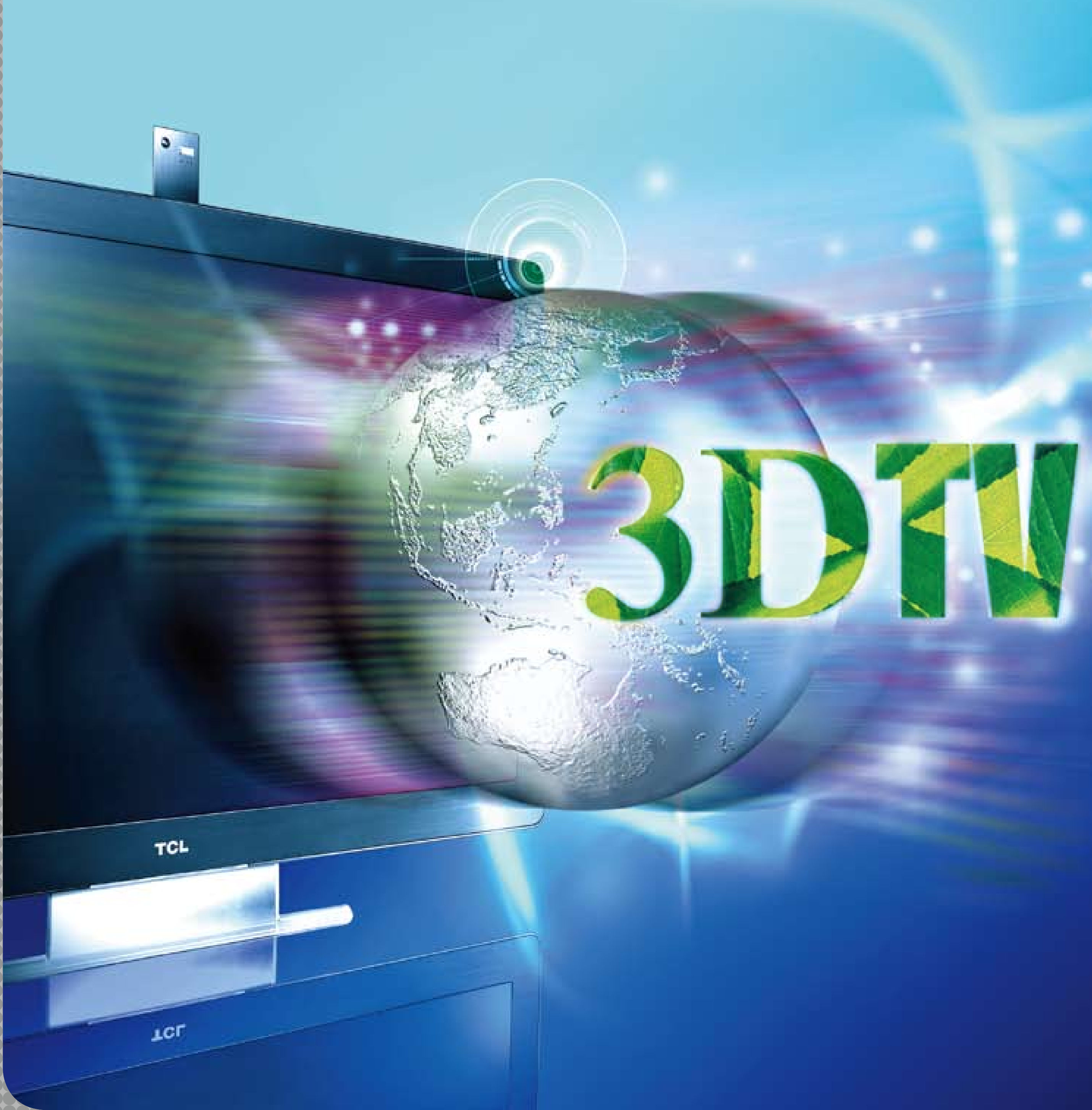


Annual Report 2008

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Stock code: 01070

16TH ASIAN GAMES
Guangzhou 2010

TCL
创意感动生活
The Creative Life

The official partner of 2010 Guangzhou Asian Games

Corporate Profile

TCL Multimedia Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group") is one of the largest TV manufacturers globally and its products are sold all over the world. Headquartered in China, the Group operates its manufacturing plants and R&D centres across all major continents. The Group's largest shareholder is TCL Corporation.

Contents

Financial Highlights

FINANCIAL PERFORMANCE

(HK$ Million)	2008	2007
Turnover	**25,773**	21,294
Gross profit	**4,107**	3,567
Gross profit margin (%)	**15.9%**	16.7%
Net loss	**(268)**	(262)
Basic LPS (HK cents)	**(36.15)**	(51.29)
Dividend per share (HK cents)	**–**	–

FINANCIAL POSITION

(HK$ Million)	2008	2007
Property, plant and equipment	**1,391**	1,667
Cash and bank balances	**2,158**	1,095
Total assets	**12,617**	10,780
Total liabilities	**9,204**	8,516
Interest-bearing debts	**2,184**	2,071
Net assets	**3,413**	2,264

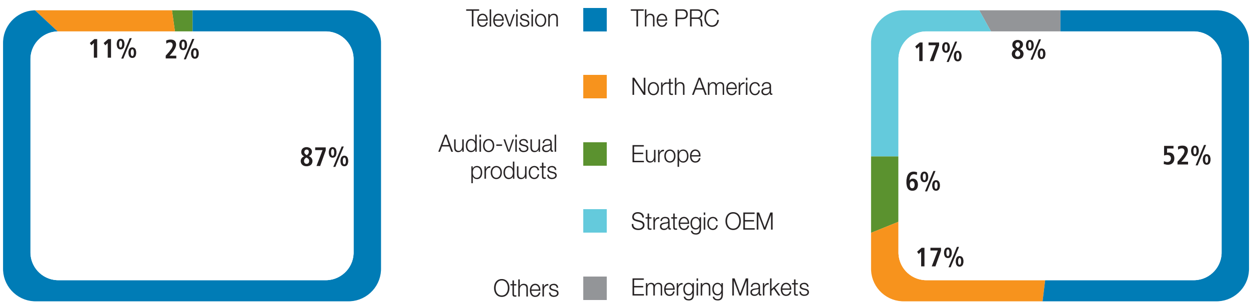
OPERATION INDICATORS

	2008	2007
Return on equity (%)	**(8)%**	(12)%
Finished goods inventory turnover (days)	**35**	44
Trade receivables turnover (days)	**56**	60
Trade payables turnover (days)	**82**	90
Current ratio	**1.2**	1.1
Gearing ratio (%)	**0.8%**	45.2%

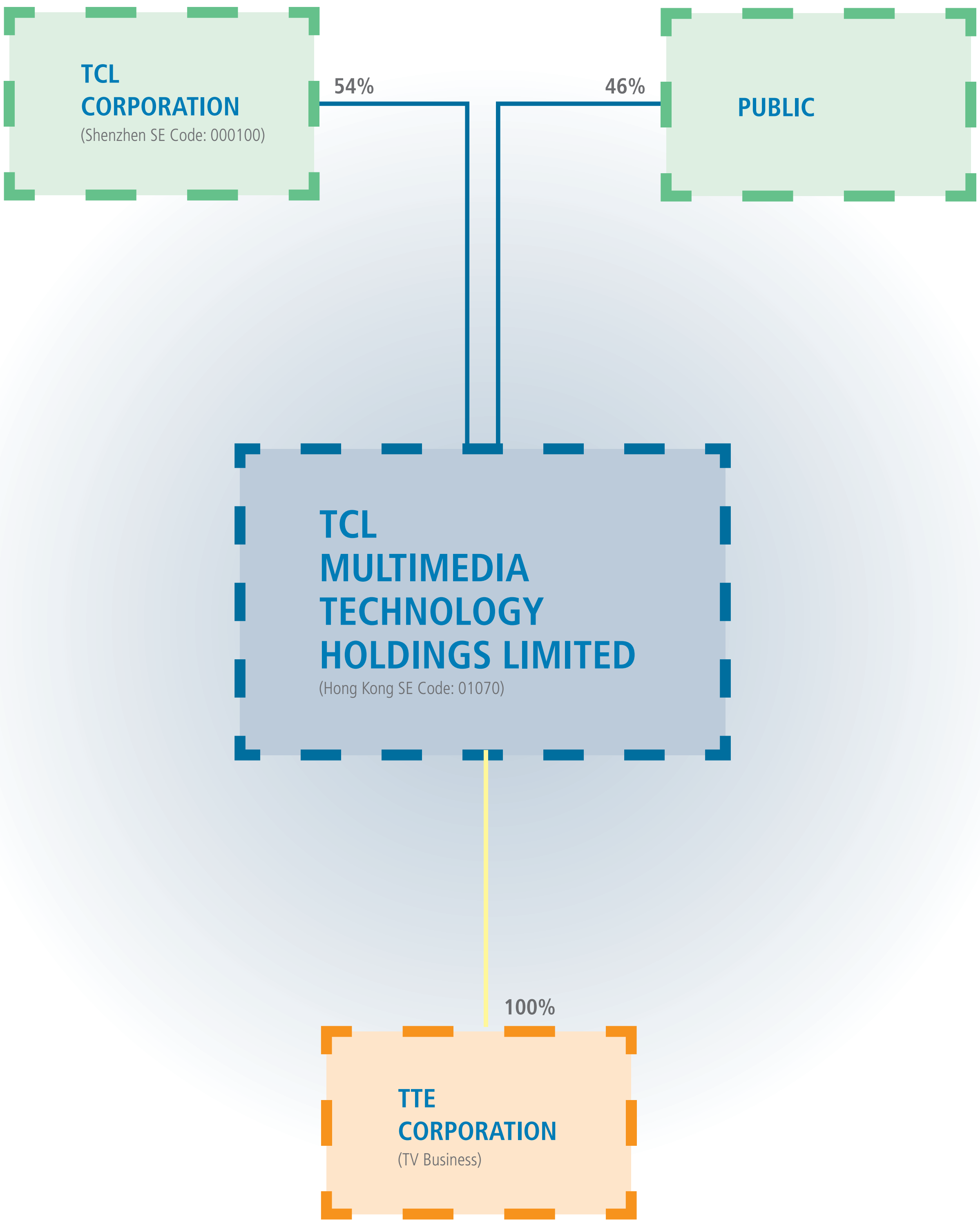
Note: The above turnover days are calculated on average balance of the year.

TURNOVER BREAKDOWN BY PRODUCTS

TURNOVER BREAKDOWN BY REGIONAL TV BUSINESS CENTRES



Corporate Structure



Year in Review 2008

JAN FEB MAR APR MAY JUN

JANUARY

SEPTEMBER

NOVEMBER

JANUARY

The Group's "Natural Light" technology shone in the Consumer Electronics Show ("CES")

MARCH

The Group introduced China's first household 3D LCD TV in Beijing

JUNE

The Company announced the proposed subscription of new shares to redeem the convertible bonds.

SEPTEMBER

The Group introduced the world's first high-definition interactive TV - LCD TV X9 series

November

TCL became the official partner of 2010 Guangzhou Asian Games

TCL won the bid in China rural "Household Appliance Subsidy Scheme" in 14 provinces/cities, which will run for 4 years.

JUL AUG **SEP** OCT **NOV** **DEC**

NOVEMBER

DECEMBER


DECEMBER

DECEMBER

TCL and Intel signed the Strategic Co-operation Agreement to develop next generation internet TV.

The Group announced that it had entered into formal negotiation for disposing of its interests in a company in Wuxi.

The Group announced to acquire a piece of land in Huizhou from TCL Optoelectronics (Huizhou) for building a LCD television plant with expected initial production capacity of 3 million sets of LCD televisions and 2 million sets of semi-finished LCD kits per year. This LCD television plant is located near the LCD module factory owned by TCL Corporation in Huizhou so as to obtain benefits from vertical integration.

The Company announced share consolidation on the basis that every 10 issued and unissued shares of HK$0.1 each will be consolidated into one consolidated share of HK$1.00.

Chairman's Statement

Chairman's Statement

"We are confident that both the Group's PRC and overseas businesses will sustain continuous growth with our enhanced core competitiveness. As a result, the Group will further strengthen its core capabilities and continue to improve operating efficiency with a goal to create greater value for its shareholders and employees."

Dear Shareholders,

The year 2008 marked an important milestone for the Group's development. The Group's operating results (EBIT) continued to improve and achieved a turnaround from HK$189 million loss in 2007 to HK$331 million profit in 2008, and turnover increased by 21.0% year-on-year to HK$25,773 million. The Group's loss for the year (including the effects of fair value adjustment of convertible bonds) was HK$251,461,000. However, we achieved a turnaround in profit before the effects of convertible bonds attributable to equity holders of the parent from HK$415 million loss in 2007 to HK$41 million profit in 2008. During the year under review, the Group sold approximately 4,184,000 sets of LCD TV, an increase of surged by 233.1% over the previous year. At the same time, the Group maintained its market share of the global CRT TV market and sold approximately 10,182,000 sets. The Group achieved a satisfactory year-on-year growth in turnover for the first three quarters, with an increase of 9.6%, 38.4% and 35.4% for respective quarter. Total turnover for the first three quarters amounted to HK$19.1 billion, representing a year-on-year increase of 27.6%. The Group's turnover fell in the fourth quarter of 2008 amid the financial crisis with a mere 5.4% year-on-year growth in turnover. As a result, turnover for the whole year increased by 21.0%. Turnover by region reached HK$11.619 billion from the PRC TV market, accounting for 45.1% of the Group's total turnover, HK$10.742 billion from overseas and Strategic OEM TV markets, accounting for 41.7% of the Group's total turnover while HK$3.412 billion from AV products and other businesses accounting for 13.2% of the Group's total turnover.

Vertical integration for LCD production, supply chain management and human resources management

In order to meet the demand due to the transition from CRT TV to LCD TV, the Group has recently acquired a piece of land in Huizhou to build a LCD TV production plant with annual production capacity of 3 million sets of LCD TVs and 2 million sets of semi-finished LCD kits. The said LCD TV production plant will be adjacent to the LCD module plant to be set up by TCL Corporation, in co-operation with Samsung. This project will significantly improve efficiency while reducing the production costs, thus enhancing the price competitiveness of LCD TVs manufactured by the Group. In addition, our LCD module plus TV

Chairman's Statement

integrated production is aligned with "Stimulus Plan for Electronics, Information Industry" recently promulgated by the PRC government, so we strongly believe that we will gain additional support from the government on this project to achieve our objectives.

We will continue to improve efficiency by enhancing our supply chain management so as to use less working capital for business development and gain more gross profit. In addition, we will further enhance human resources management through Talents Program to further strengthen our mid-level management team.

Enhanced financial strengths resulting from early redemption of convertible bonds

I would like to draw the shareholders' attention to the early redemption of convertible bonds in June 2008 (The maturity date of the bonds shall be 2012). By redeeming the bonds, the Group discharged itself from various financial covenants and thus reduced its financing costs and further enhanced its financial position. As a result, the Group can be more flexible to fully utilize the resources for the business development. After the subscription of new shares, the shareholding of T.C.L. Industries Holdings (H.K.) Limited increased to over 50%. Moreover, our shareholder base was further strengthened following the subscription of the new shares by senior management of the Group and long-term independent investors. Moreover, uncertainties arising from the fair value adjustment of convertible bonds were eliminated. Investors and shareholders will have a clearer picture of the financial results going forward.

Meanwhile, to support the fast growing LCD TV business and decrease the gearing ratio, considerable time and efforts had been spent on improving cash flow process through stringent working capital control.

Stronger market position and raising our brand value

Based on Displaysearch on LCD TV shipment and our internal Strategic OEM shipment data, the LCD TV market share ranking of the Group moved up from No.13 in 2007 to No.8 in 2008. The Group's LCD TV shipments of the overseas markets and its Strategic OEM business increased by 488.3% to 2.718 million sets while revenue increased by 39.7%. The brand value of "TCL" was Rmb 40.869 billion (approximately US$5.95 billion), and continued to be No.1 in TV brand in PRC. The X9 Series LCD TV won the Global Innovative Flat Panel TV Award in Consumer Electronic Show ("CES") held in Las Vegas, U.S. in January this year. Lastly, TCL brand was also ranked No.6 among all the global consumer electronics brands.

Determined to further explore the overseas markets through as well as the PRC markets

During the year under review, according to Displaysearch, the Group maintained its leadership in the PRC market for the fifth consecutive year with a market share of 17.1%. Benefiting from overall market transition from CRT TV to LCD TV, the Group's LCD TV sales volume increased 84.6% and revenue grew 14.2% to approximately HK$11.619 billion. CRT TV sales volume decreased 15.1% during the year reflecting the global trend of greater reception of LCD TV products.

The PRC government extended the "Household Appliance Subsidy Scheme" to the whole nation in 2008. In the two phases of the scheme, the Group won the greatest number of bids among the TV manufacturing companies with 46 of its TV products selected. The selection of such an extensive range of the Group's products is contributed by the success of our dual brands (TCL and ROWA) strategy. To capitalize on the opportunities arising from the "Household Appliance Subsidy Scheme", the Group expects its TV sales in the third and fourth tier cities to grow rapidly. The rapid growth of demand for LCD TV in the cities will eventually become the main earnings growth driver in the PRC market in 2009.

The European economy was nevertheless adversely affected by the financial tsunami, which in turn directly affected the Group's sales in the European markets in the fourth quarter. Amidst such unfavorable market conditions, the Group's European business unit maintained healthy development through high sales efficiency, together with product mix enhancement and effective implementation of cost reduction measures, including production optimisation of key components and local panel sourcing. Market share of the Group's LCD TV products by sales volume ranked No. 8 in France (source: GFK), better than many international brands.

In North American market, TV sales revenue achieved remarkable growth in first three quarters during the year under review mainly due to the enhanced product mix and turnover for the first three quarters increased by 30.9%, 36.4% and 68.4% year-on-year respectively. As the origin of the global subprime mortgage crisis, the North American economy is worse than the other markets in the world. Demand for LCD TV started to decline dramatically from the fourth quarter as consumers in North America became more prudent on spending. As a result, the TV turnover decreased by 66.1% year-on-year in the fourth quarter and overall increased by 7.6% for the whole year, leading to a continued loss for this business unit. However, the operating loss was substantially reduced by 64.9% year-on-year, mainly attributed to the Group's focus on its supply chain and operation process optimisation measures to shorten the inventory turnover period, together with improvement in reducing warranty expenses and distribution cost which helped increase overall operating efficiency. The demand for LCD TV is still high as the U.S. is undergoing switch from analog to digital broadcast television in 2009

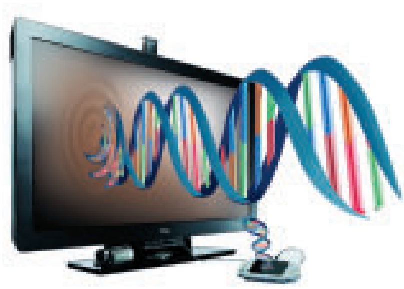
In the Emerging Markets, TV sales were hit by contracting demands as the financial tsunami eroded consumers' purchasing power in the region. However, the adverse effect of lower demand was partly offset by the Group's successful product strategy, enhanced sales management capabilities and operational efficiency in the Middle East and Africa. To minimize the risk of commodity price surge and currency depreciation, the Group held most of its cash in Renminbi and US Dollars.

Chairman's Statement

Distinguishing performance in Strategic OEM and Home Networking businesses

The Group's Strategic OEM operation attracted several leading international customers during the year under review. As a result, TV sales revenue increased by 173.2% while operating profit increased by 260.8%. This segment was increasingly challenging as demand shrank in the deteriorating global economy. The Group enhanced its competitiveness through shorter delivery period, improved product quality and other cost saving measures.

The Group continued to maintain good strategic relationships with several leading international brands. During the year under review, the Group successfully opened up new markets and extended its product lines including DVD, portable DVD player, digital photo frame, and high definition optical laser disc players. The Group intends to launch China blue laser disc players to the PRC market during second quarter of 2009. It's an open-source technology along with low patent fee which are beneficial to transforming the AV products as a whole.



Seizing opportunities in crisis to drive continuous growth

Looking ahead, our overseas operations will come under tremendous pressure as the global economy is expected to worsen in the first half of 2009. While the deteriorating economic environment will accelerate the industry restructuring, it also provides ample space for further growth due to our strong financial position, well-known international brands, good customer relationships as well as adequate cash flow. There are also a number of external factors that will drive our sales growth, including the accelerating shift to digital broadcasting worldwide, introduction of new industry standards such as advanced video decoding technology, as well as implementation of "Stimulus Plan for Electronics, Information Industry" by the PRC government.

Strengthen foundation and act against adverse impact to achieve steady growth

We will carry out the following measures in 2009 to overcome the difficulties lying ahead and to enhance our competitiveness:

(1) Through standardization and improvement of business processes and systems, promotion of comprehensive budget management, strengthening the construction of information system and cultivation of cross-functional collaboration to achieve the goal of strengthening foundation.

(2) Taking advantage of our leading position in the PRC market to capitalize on the great opportunities brought by the government's efforts to stimulate the PRC demand through the "Household Appliance Subsidy Scheme". We will boost our PRC LCD TV sales, strengthen development of new products such as 3D TVs, natural light LCDs and Internet TV and step up

efforts in promoting sales of China blue laser disc players, digital household appliances and mobile TVs in overseas markets. We will leverage on our competitiveness in speed, operational efficiency and cost efficiency to generate more sales in the middle and low-end markets of Europe and the U.S.. As to the Emerging Market, while remaining vigilant against operational risks, we will seek business growth in the volatile market conditions by focusing on selected markets and continuing to promote OEM and ODM operations.

(3) Closely monitoring business risks such as exchange rates, market fluctuates and financial status of distributors and implement preventive measures to optimize system and labor.

(4) Building a business structure that can adopt changes in business environment and support operation targets as well as control labor cost efficiently. We will also establish systems to retain key employees and encourage active participation to achieve greater efficiency.

Through the process of turning the business into profitability, we gained valuable experience to seize the opportunities under adverse environment. We are confident that both the Group's PRC and overseas businesses will sustain continuous growth with our enhanced core competitiveness. As a result, the Group will further strengthen its core capabilities and continue to improve operating efficiency with a goal to create greater value for its shareholders and employees.

APPRECIATION

I would like to take this opportunity to express my gratitude to the directors for their prudent management, our shareholders for their continued support, and the community for their cooperation, and finally our employees for their hard work.

LI Dongsheng
Chairman
Hong Kong, 25 March 2009

Management Discussion and Analysis

Management Discussion and Analysis

BUSINESS REVIEW

2008 marked an important milestone for the Group. With concerted efforts of the management and staff, the Group restructured its operation and financial position. From these breakthroughs, the Group reported favorable results and achieved operational profitability for the year under review. Amidst the global financial tsunami and overall challenging economic conditions, these results demonstrated the Group's commitment to long term growth and shareholder value.

During the year under review, the Group remained strategically focused on streamlining its operation while enhancing its financial position. Through the management's pursuit their efforts on innovation, product design, accelerated business restructuring and cost-reduction, the Group successfully enhanced its overall operational efficiency. The Group's LCD business consolidated its abilities in products comparative benchmarks, cost audit, product planning, project planning and supply chain control to strengthen sales and marketing capabilities. As the Group considered that CRT products were still profitable, the management consolidated its CRT TVs resources into one business unit and established a more sophisticated and efficient team. With these strategic actions and competitive products, the Group continued to best utilise its investment in the CRT business during the year under review.

As a result, the Group achieved an operating profit of HK$331 million for the year ended 31 December 2008, as compared with a loss of HK$189 million in 2007. EBITDA also increased from HK$63 million in 2007 to HK$593 million in 2008, representing a substantial improvement of 841.3%.

In June 2008, the Bonds (originally due in 2012) were early redeemed. The redemption of the Bonds released the Group from obligations under various financial covenants, reduced financial costs and enhanced the financial position, giving the Group greater flexibility to maximise its resources to drive business expansion. Moreover, the uncertainty resulting from the impacts of fair value adjustments from the Bonds on the Group's earnings has been eliminated, which provides the investors and shareholders with a clearer picture of financial results of the Group. Upon completion of the Subscription during the year, T.C.L. Industries' shareholding in the Company has increased to over 50%. At the same time, shareholder base of the Company was strengthened due to the subscription by the senior management and long-term independent investors.

TV Sales

During the year under review, the Group sold 4,184,000 sets LCD TVs, recording an increase of 233.1% as compared to the previous year. With the global trend of greater reception of LCD products, the Group decisively shifted its product mix and production lines towards LCDs and the move has been proven a success. LCD TVs represented 29.1% of the total TV shipments in 2008, increasing substantially from 8.4% in 2007. At the same time, the Group maintained its CRT TVs global market share and sold 10,182,000 sets during the year.

Management Discussion and Analysis

Demands for large-screen, high-definition TVs increased in line with ongoing advancement in digital broadcasting and high-definition content. More and more households began to own more than one TV set which further drove the demand for TV sets. In response to such demand, the Group sought to strengthen its range of LCD TVs through the release of new products ranges such as X9, E9, M9 and N9 series. With the Group's independently developed and patented "Natural Light" technology, E9 is able to automatically adjust the backlight according to the brightness of the particular image signal, allowing saving of 50% on conventional flatscreen energy consumption, which far exceeds the industry standards. Furthermore, the X9 series LCD TV won the Global Innovative Flat Panel TV Award for 2008 in the Consumer Electronics Show. In 2008, the Group also released the innovative 3D autostereoscopic LCD TVs, taking one step ahead of satisfying the diversifying demand. The Group aims to roll out highly-advanced and cost-competitive LCD TVs to the market in a timely manner to boost its position as one of the world's top brands.

Sales volume by region is indicated below:

	2008 ('000 sets)	2007 ('000 sets)	Change
LCD TVs	**4,184**	1,256	+233.1%
– PRC	**1,466**	794	+84.6%
– Overseas & Strategic OEM	**2,718**	462	+488.3%
CRT TVs	**10,182**	13,755	(26.0%)
– PRC	**5,382**	6,342	(15.1%)
– Overseas & Strategic OEM	**4,800**	7,413	(35.2%)
Total TV shipments	**14,366**	15,011	(4.3%)
AV products	**16,893**	19,135	(11.7%)

The PRC Market: Maintained overall market leadership for the fifth consecutive year with increasing sales and profitability

Despite intense competition, the Group maintained its leadership in the PRC market for the fifth consecutive year, with a market share of 17.1% according to Displaysearch. Dual brands (TCL and ROWA) strategy has been implemented and ROWA brand LCD TV has been launched in the PRC market since 2008. A total of 6,848,000 sets of TVs were sold in the PRC market achieving steady growth of 84.6% in LCD TV sales volume year-on-year. According to Displaysearch, Winter Sales initiative propelled the Group's LCD TV market share from about 9% in the first three quarters to about 15% in the fourth quarter. Sales revenue in the PRC amounted to approximately HK$11,619 million achieving a year-on-year growth in sales revenue of 14.2%. The PRC market continued to be the largest contributor to the Group, accounting for 52.0% of total TV sales revenue.

During 2008, the Group launched an impressive lineup of 19" to 52" TV products in the PRC market, including X9, E9, M9, all-in-one digital models and smaller sized N series targeted for bedrooms. X9 series quickly became hit products with their full high-definition+120HZ+digital recording functionality, innovative digital entertainment platform, built-in high-definition camera system and stylish design. The stylish and narrow design makes M9 series both attractive and compact. E9 series has features of full high-definition LCD, full high-definition core processing unit and hi-gloss injection moulding technology. E9 series is also the first all-in-one model that is compatible to terrestrial high-definition/standard-definition, cable high-definition/standard-definition and analogue signals. The Group's LCD TV products integrate the state of the art technologies including self-developed and patented "Natural Light", "Circularly Polarized Light" and "Dynamic Backlight". The innovative green energy-saving and eye-protection functions of the products significantly increase their competitiveness.

During the year under review, the PRC market continued to be the Group's fastest growing market. The Group has taken steps to further increase sales and cut cost so as to ensure its leadership and competitiveness in the PRC market. In addition, as an official sponsor of the Guangzhou Asian Games, the Group will take advantage of the brand awareness in Asian countries.

The economy stimulus plan promulgated by the PRC government such as "Household Appliance Subsidy Scheme" created enormous opportunities to the Group, and 46 models of the Group's TV products were selected in this scheme. In attempt to further enhance the production capacity and cost structure, the Group is taking a vertical integration of LCD TV production.

European Markets: Continued growth and profitability in first three quarters but hampered by the economic turmoil in the fourth quarter

During the year under review, although the sales volume in the fourth quarter was adversely affected by the financial tsunami, the sales volume from the first to third quarter increased sharply and the Group recorded significant growth for its LCD sales as compared to that of last year. The market share of the Group's LCD TV products by sales volume ranked No. 8 in France (source: GFK) and outperformed that of many international brands.

The Group launched products with most advanced video compression technology and slim product feature which set solid footsteps to improve its position in France. The Group also successfully improved the trade relations and expanded sales channel over the region in order to introduce TCL brands to more countries and increase sales in East Europe and Russia.

There was a clear sign of economic slowdown and financial turmoil in the fourth quarter. To cope with the worsening economic environment, the Group installed stringent business control covering credit worthiness assessment, strict

Management Discussion and Analysis

trade receivables control, tightened inventory pipeline and foreign exchange management and decided to stop doing business with some accounts. It is believed that business transactions will only be made with manageable risks. The Group has been implementing weekly inventory and margin management so as to achieve cost reduction.

North American Markets: Increase sales and margin while reducing cost of operation. Another step towards profitability

Demand for LCD TV products slowed down significantly in the fourth quarter of 2008 as a result of the weak U.S. economy. However, due to gains in the first three quarters, fast growing demand for LCD TVs driven by pricing adjustments in larger screen size models and working closely with Wal-Mart, the Group's major customer whose performance is the best among retailers in U.S., LCD TVs sales volume in 2008 increased significantly as compared to that of last year.

All RCA brand LCD TV models have attained Energy Star 3.0 compliance by 1 November 2008. In addition, seven RCA brand LCD TV models achieved Tier 2 status with the Consortium for Energy Efficiency which requires power efficiency of 15% above the Energy Star 3.0 requirement. The Group has proven its commitment to provide environmentally "green" products.

During the year under review, the Group maintained its focus on its supply chain optimisation initiatives and streamlined its operation processes. Improvements in supply chain lead-time reduced risk associated with high storage cost of inventories. In addition, local panel hub delivery helped to lower cash working capital requirement. Operating loss was materially reduced in 2008 which was attributed mainly to the implementation of initiatives on reducing warranty expenses and distribution costs. The Group will maintain its policy of stringent working capital, cost and margin management.

Emerging Markets: Continue to focus on selected markets while de-risking others. Initiated transition plan from CRT TV portfolio to LCD TV portfolio in line with market trends

The U.S. credit crisis adversely affected demands in Emerging Markets, therefore TVs sales volume decreased overall by 10.7% during the year under review. Business results were hampered by economic turmoil and impacts from foreign exchange fluctuations, changes in taxations and duties.

The Group increased LCD TV sales in focused markets like Australia and several ASEAN countries. The Group will continue to maintain rapid growth of LCD TV sales in the selected countries. The Group had progress in the sale of TCL brands in several countries with its structured approach to Branded business through sales brands company, agencies and OEM partners. In addition, the Group implemented stringent risk management, and continued to improve ways of business management.

Strategic OEM: Breakthrough in LCD TV business in the OEM sector in 2008 and evaluating further opportunities for 2009 and beyond

As a result of the Group's effort in improving its LCD TV production capability, the Group's Strategic OEM operation attracted several leading international customers during the year under review. Sales revenue for Strategic OEM TV products increased by 173.2% and operating profit by 260.8% in 2008. The business environment for this segment was increasingly challenging as demand shrank in the deteriorating global economy. The Group enhanced its competitiveness through shorter order lead time, improvement on product quality and other cost saving activities. Pressure from economic turmoil is driving many top tier consumer electronics companies to rethink their business strategy, but the management sees increasing opportunities in the OEM business sector. The Group completed the transition from CRT TV to LCD TV for OEM business, which helped the LCD TV portfolio grow by over 1.5 million units in 2008.

Audio-visual ("AV") Products: Improved operating results in 2008 while steering towards a better product and customer portfolio

Despite 5.3% decline in sales revenue driven mainly by price erosion in the desk top DVD system, the Group adopted cost control and margin management which enabled 12.5% improvement in operating results. The Group also managed to increase product range and customer combinations. New products included portable DVD player, digital photo frame and high definition optical disc players. The Group also added one significant top tier Japanese customer, as well as developed and secured a number of patents for the core technology of China blue laser disc players. In addition, the Group continued the current strategy to further improve Customer-Product combinations to sustain its profitability.

R&D: Expanded product offering, developed 3D LCD TV and internet TV ("i-TV")

Technology, design, functionality and environmental friendliness are integral parts of product competitiveness in the TV industry. In view of this, the Group has placed substantial research and development efforts in these areas to enhance product quality. The Group's latest innovative product – 3D autostereoscopic LCD TV was exhibited during the Consumer Electronics Show 2009 in Las Vegas, USA. The advanced 3D LCD TV which requires no special glasses for light signal splitting has drawn extensive attention in the industry.

As TVs have shifted from being mere devices that display broadcasting signals to the more important "windows of information" in the household, the Group entered into a strategic co-operation agreement with Intel to co-develop the next-generation i-TV in December 2008. The two parties will also join together to promote the integration of Internet and TV to bring a more comprehensive television experience to domestic consumers. From natural light technology, 3D display to i-TV, the Group is reaffirming its efforts and capabilities in LCD TV technology development and strives to lead the industry.

Management Discussion and Analysis

OUTLOOK

Confidence in outlook

In spite of the worsening global economic environment, a weaker market provides opportunities for corporations like the Company that has a healthy balance sheet, a global brand, good customer relationship and strong cash-flow. The management believes the difficult operating environment could speed up industry consolidation and offer the Group opportunities to capture market share. Worldwide implementation of digital broadcasting provides another catalyst for greater demand for high-definition TV. The transition has already begun in most mature markets, while the PRC television authorities have already set the timetable for the conversion. Under the current business environment, the Group's business targets are clear: to become one of the global top 3 TV manufacturers, to maintain our CRT TV market share above 11% and to retain the growth momentum of LCD TV business and achieve the market share target of 6% in 2010.

After the early redemption of the Bonds, the Group continued paying efforts in streamlining its asset structure. The transactions for sale and lease back certain of the Property at Wuxi, PRC were duly approved by the independent shareholders at an extraordinary general meeting on 16 February 2009. The Group's entire interests in TCL Wuxi will be disposed of for a consideration of RMB159 million (approximately HK$180 million). The Group will recognise gain on its disposal, which will further enhance the Group's cash flow. Details of the transactions are set out in the Company's announcements dated 31 December 2008 and 7 January 2009 and circular dated 23 January 2009.

LCD production integration

The Group is well positioned to capture these new opportunities and more resources will be added to the Group's LCD TV business. In particular, the Group initiated a blueprint for production vertical integration and intends to expand its LCD TV production capacity. The Group has recently acquired a piece of land in Huizhou, PRC, with 53,704.8 square meters for building a LCD TV production plant with annual production capacity of 3 million sets of LCD TVs and 2 million sets of semi-finished LCD kits. The said LCD TV production plant will be adjacent to the LCD module plant to be set up by the Group's ultimate holding company TCL Corporation, in co-operation with Samsung. As TCL Corporation is expected to be a major LCD modules supplier of the Group, having a LCD TV production plant located close to the Group's major supplier, will significantly reduce the production costs while assuring quality, thus enhancing the price competitiveness of LCD TVs manufactured by the Group.

Household Appliance Subsidy Scheme

Although facing keen competition from overseas and local competitors in the PRC market, the management is confident that the Group will maintain its position as a market leader. In the first stage of "Household Appliance Subsidy Scheme" result, the Group won the greatest number of bids among the TV manufacturers and 46 TV products of the Group were selected. Benefiting from the "Household Appliance Subsidy Scheme", TV sales of the Group in third and fourth tier cities are expected to grow rapidly. The Group will continue to promote its high-end TVs and at the same time refine its marketing plans and increasing industry partnerships to ensure its competitiveness in the market.

New industry standards legally compulsory in Europe

There is a general consumer slowdown in Europe and some markets will be heavily impacted by currency depreciation. The Group expects sales for its European Markets will face pressure in terms of both volume and revenue. Despite this, new industry standards, including the most advanced video compression technology, will be legally compulsory in some European markets which will help offset the slowdown in demand. The Group will continue to enhance its product range competitiveness while monitoring its operating costs and overall efficiency.

U.S. to go digital for all television broadcast in 2009

As the U.S. economic downturn remains the major concern for the Group's North American business unit, the Group will implement stringent cost control measures and ensure efficient management of its inventories during the upcoming period. U.S. will stop delivering analog channels and convert them to digital standards by 2009. The Group is well prepared to capture the opportunity to accelerate sales growth when the U.S. digital television broadcast is to be implemented in 2009. Targeting to become one of the top 10 manufacturers through providing consumers price competitive products with the latest technologies.

Further enhance cost structure

For Emerging Markets and the Strategic OEM segment, the Group's basic strategies of clear segment, target, and positioning insights will continue to improve its position in these markets. The management remains optimistic about the growth of these business units with the vertical integration of LCD TV production in Huizhou, PRC which will further enhance its cost structure as well as product competitiveness. The Group's digital technology division will be consolidated into its Home Networking Business to create synergy in cost, efficiency and customer service between the two business units. This will help the new team to achieve growth in both customers and products.

Against the background of keen competition, the Group has kept abreast of changes and global market developments. The Group remains strategically focused on profitable business areas while imposing tight cost controls at the same time. Looking forward, the Group will continue to secure profit levels and shareholder value through the effective management of expenses, a streamlined operation, improved supply networks and inventory control.

Management Discussion and Analysis

FINANCIAL REVIEW

Significant Investments, Acquisitions and Disposals

On 5 December 2008, TCL King Electrical Appliances (Huizhou) Co., Ltd. entered into a transfer agreement with TCL Optoelectronics Technology (Huizhou) Co., Ltd., a direct wholly owned subsidiary of TCL Corporation, to acquire certain land use rights for a land in Huizhou, PRC at a consideration of RMB21,569,459 (equivalent to approximately HK$24,373,489). The transfer of land use rights had been completed on 11 February 2009.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, bank advances as consideration for factored trade receivables, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balance as at the year end amounted to HK$2,158 million, of which 0.3% was maintained in Hong Kong dollars, 27.2% in US Dollars, 64.9% in Renminbi, 4.5% in Euro and 3.1% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2007 and there was no asset held under finance lease at the year end.

At the year end, the Group's gearing ratio was 0.8% which is calculated based on the Group's net borrowing of approximately HK$25.8 million (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the Company of approximately HK$3,288 million.

Pledge of Assets

At 31 December 2008, none of the Group's assets were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

At 31 December 2008, the Group had capital commitments contracted but not provided for and authorised but not contracted for of approximately HK$33 million and HK$4 million respectively.

In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe SAS ("TTE Europe", a subsidiary of the group had been deconsolidated in 2007) against the Company, TTE Europe and TCL Belgium S.A. (formerly known as TTE Belgium S.A. and being an indirect wholly-owned subsidiary of the Company), for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro 8.7 million (equivalent to approximately HK$94.9 million). During the last hearing, the former employees had failed to disclose any document in support of their claim. The hearing was postponed until future notice and the case is removed from the list of current cases.

The directors, based on the advice from the Group's legal counsels, believe that the Group has valid defence against the Claims and, accordingly, has not provided for any liability arising from the Claims.

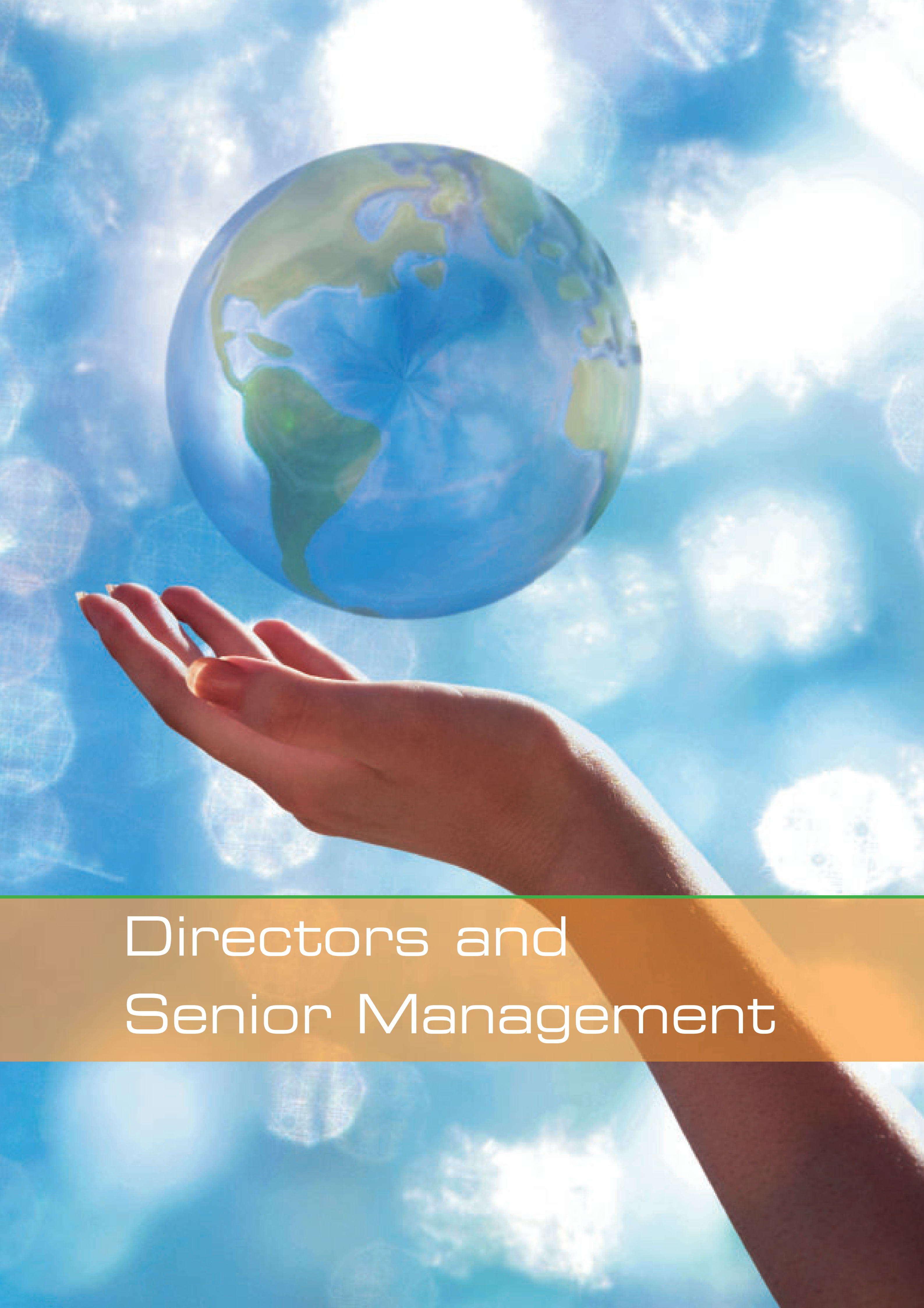
Foreign Exchange Exposure

Due to its international presence and operations, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralise foreign currency management to monitor the Company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging. In line with the aim of prudent financial management, the Group does not engage in any high risk derivative trading or leveraged foreign exchange contracts.

Employee and Remuneration Policy

The Group had a total of 28,408 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. Options for subscribing a total of 417,624,010 shares remained outstanding at the year end. The Company has also adopted the Award Scheme, details of which are set out in note 37 to the financial statements.



Directors and Senior Management

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LI Dongsheng

aged 51, is the founder and Chairman of the Company. He is also the Chairman, Chief Executive Officer ("CEO") and one of the founders of TCL Corporation ("TCL Corporation") (the ultimate controlling shareholder of the Company). TCL has become one of the leading global consumer electronics enterprises based in China, since the acquisition of Thomson color television and Alcatel mobile phone businesses. Mr. Li was elected as a delegate to the 16th Party Congress, and the 10th and 11th National People's Congress.

In 2008, Mr. Li received "Deloitte prize entrepreneurs" (in Barcelona); honored as "Economic Figure" of China's reform and opening up 30 years; a New York based brands evaluation institute awarded him "the founder of the brand" in the 30 years of China's reform and opening up; He was named by *China Times* as 2008 China "Top Ten Outstanding CEOs"; He was also short-listed "Brand China 2008 Person of the Year" by Brandcn.com.

He received the Corporate Leadership award by the US-China Forum in Chicago in 2007; he was named "one of the most influential business leaders" by the *China Entrepreneur Magazine* in 2006 and 2005; "2004 CCTV China Economic Leadership Award" in 2004; one of the Top 25 Global Business Leaders by *Time Magazine* and *CNN* in 2004; "Asia Businessman of the Year" by *Fortune Magazine* in 2004. In the same year, Mr. Li was awarded a medal of OFFICIER DE LA LEGION D'HONNEUR (French national honor) by French President Mr. Jacques Chirac, where he became the first Chinese entrepreneur to be awarded the French national honor.

Mr. Li also holds a number of prestigious positions including: Chairman of China Electronic Imaging Industry Association; Vice Chairman of China Chamber of International Commerce; Vice Chairman of China Tennis Association; Guest Professor of Wuhan University. He is an electronic engineer and holds a Bachelor's Degree in Science from South China University of Technology.

Mr. LI Dongsheng

Mr. LEONG Yue Wing

aged 56, is the CEO and an Executive Director of the Company since 1 October 2007, responsible for the overall management of the Company including strategy, business development and operations. Mr. Leong has a Bachelor's degree in Mechanical Engineering and an MBA from the University of Singapore (currently National University of Singapore). Mr. Leong had been associated with Royal Philips Electronics for 28 years since 1978. Mr. Leong retired from the position of Executive Vice President – Philips Consumer Electronics in April 2007. Mr. Leong has extensive management experience in the production and sales of audio-visual and consumer electronics products, and has been actively involved in business development in the PRC, Asia Pacific region, Latin American, North American and European markets.

Mr. LEONG Yue Wing

Directors and Senior Management

Mr. YU Guanghui

Mr. YU Guanghui

aged 40, currently is an Executive Director, Executive Vice President and General Manager of Home Network Business Unit of the Company. He is also a Vice President of TCL Corporation. Mr. Yu joined TCL Group in 1993. He had held the positions of Engineer of TCL Huizhou Shouhua Science Park, Manager Assistant of LG Electronics (Huizhou), Deputy General Manager of TCL King Electrical Appliances (Huizhou) Co. Ltd, Deputy General Manager of TCL Electronics (Hongkong) Co., Ltd., General Manager of TCL Overseas Holdings Co., Ltd., Vice President of Electronics Business Unit and Overseas Business Unit of the Company, President of TTE Strategic-OEM Business Unit, General Manager of AV Business Unit etc. Mr. Yu has rich management experience in material procurement, manufacturing, product management, business development and co-operation with world class companies. He was one of the founders of TCL's early Color TV production base. Mr. Yu graduated from the Shanxi Normal University with a Master's degree in Physics, and holds a MBA degree from Peking University and an EMBA degree from Cheung Kong Graduate School of Business.

Mr. SHI Wanwen

Mr. SHI Wanwen

aged 42, is an Executive Director of the Company and a Vice President of TCL Corporation. Mr. Shi was previously the Group's Chief Operating Officer and General Manager of the Emerging Market Business Center. Mr. Shi holds a Bachelor's degree in Wireless Technology from the South China University of Technology.

Mr. HUANG Xubin

Mr. HUANG Xubin

aged 43, is an Executive Director of the Company. He joined TCL Group in March 2001 and served as an officer and general manager of the Financial Settlement Centre of TCL Corporation. He became the chief economist of TCL Corporation in June 2004, director and general manager of TCL Finance Co. Ltd. in October 2006 and has been a member of the executive committee of TCL Corporation since July 2007. Before joining TCL Group, Mr. Huang served as the head of credit department of China Construction Bank, Guangdong Branch and the senior manager of the representative office of China Cinda Asset Management Corporation in Guangzhou. Mr. Huang graduated from Hunan College of Finance and Economics and obtained a Master's degree in Economy at Research Institute for Fiscal Science, Ministry of Finance, The People's Republic of China.

Mr. WANG Kangping

Mr. WANG Kangping

aged 40, is an Executive Director of the Company. He joined TCL Group in 2002, is also a Senior Vice President of TCL Corporation and the President of TCL home appliance group. Mr. Wang has over 15 years experience in the home appliance industry. He was the Chief Engineer in Shandong Hongyi Air-Conditioner Co. Ltd., Design Manager in Guangdong Kelon Air-Conditioner Co., Ltd., Vice General Manager of Kelon (Japan) Co. Ltd., General Manager and Director of Guangdong Kelon Air-Conditioner Co., Ltd., Vice President of Guangdong Kelon Electrical Holdings Co. Ltd. and President of the home appliance branch of TCL Corporation. Mr. Wang graduated from Beijing University of Aeronautics and China Europe International Business School, with a Master's degree in Business Administration.

Mr. YUAN Bing

(resigned on January 1, 2009), aged 39, is a Vice President of TCL Corporation. He was the Chief Financial Officer ("CFO") and an Executive Director of the Company. Mr. Yuan joined TCL Group in 1999, and had held the positions of Deputy Chief of Financial Department of Hubei Yichang Vacuum Tube Plant, Finance Controller of Guangdong Midea Air-conditioning Co. Ltd, Finance Manager of Shenzhen Tianyuan Financial Electronics Corporation, Chief of Finance Department, Finance Controller, General Manager of Financial Management Center of TCL Corporation, Deputy Chief and then Chief of Strategic Development Department of TCL Corporation etc. Mr. Yuan has 18 years' experience in the consumer electronics industry and extensive experience in investment, accounting and finance. He graduated from Shanxi University of Finance and Economics with major in Accounting.


Mr. YUAN Bing

Ms. LU Zhongli

(resigned on February 17, 2009), aged 63, is the Chairman of TCL Finance Co., Ltd. She was an Executive Director of the Company, and a Director and Senior Vice President of TCL Corporation. Ms. Lu has over 38 years of experience in financing, taxation, accounting and financial management. Ms. Lu is an accountant, graduated from Hubei University.


Ms. LU Zhongli

NON-EXECUTIVE DIRECTOR

Mr. Albert Thomas DA ROSA, Junior

aged 55, is a Non-executive Director of the Company. He is a practicing solicitor in Hong Kong and a partner of Messrs. Cheung, Tong & Rosa, Solicitors, Hong Kong. He is a fellow of the Chartered Institute of Arbitrators and the Hong Kong Institute of Directors and also a member of the Hong Kong Securities Institute and the Society of Registered Financial Planners. He graduated with a Bachelor's Degree in Laws from the University of Hong Kong and also obtained a Master's Degree in laws from the same university. He is also a non-executive director and the company secretary of certain other companies listed on the Stock Exchange of Hong Kong Limited. He also serves as a Deputy Convenor and a member of the Solicitors Disciplinary Tribunal Panel, as a member of the Academic and Accreditation Advisory Committee of the Securities and Futures Commission and as a member of the Panel of the Board of Review (Inland Revenue) respectively.

Mr. da Rosa had been a non-executive director of Innovative International (Holdings) Limited ("Innovative"), a company incorporated in Bermuda, until his retirement at the conclusion of its annual general meeting held on 3 September 2001. Innovative was subsequently renamed as Carico (Holdings) Limited, also listed on the Stock Exchange. Innovative was then an investment holding company and its subsidiaries were principally engaged in the design, manufacturing and marketing of antennae and car-related consumer products as well as strategic development and investment. Innovative entered into a debt restructuring agreement in July 2001 for an amount of debt of approximately HK$660 million. Receivers and managers of all the properties and assets of Innovative were appointed in October 2001 pursuant to the terms of composite guarantee and debenture granted to its secured creditors. Thereafter, Innovative entered into schemes of arrangement for restructuring in both Hong Kong and Bermuda. The restructuring was completed on 20 December 2002.


Mr. Albert Thomas DA ROSA, Junior

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Guliang

Mr. TANG Guliang

aged 46, is an Independent Non-executive Director of the Company. He is a professor at University of International Business and Economics, School of Business. Mr. Tang holds directorships in several listed companies in the PRC. He is also a certified public accountant in the PRC and a vice secretary-general of the Accounting Society of China.

Mr. Robert Maarten WESTERHOF

Mr. Robert Maarten WESTERHOF

aged 65, is an Independent Non-executive Director of the Company. He has over thirty years' experience in the electronics industry. Mr. Westerhof has held senior management positions in the Computer, Telecommunications and Medical Systems divisions of Philips, his last positions were CEO Philips Asia and CEO Philips North America. After his retirement from Philips he became the President of the European top soccer team PSV Eindhoven (a voluntary job). He is the CEO and an Executive Director of MeDaVinci PLC, an investment company in the area of medical innovations listed on the Alternative Investment Market in London. He serves as the Chairman of the Supervisory Board of Nucletron, a worldwide medical treatment company based in Netherlands. He is also a member of the Supervisory Board of Teleplan, a hardware services provider listed on the Frankfurt Stock Exchange, a member of the Advisory Board of Brand Loyalty, a consultancy firm in the area of consumer loyalty programs based in the Netherlands, and a member of the Advisory Board of VKA, an IT strategy company based in the Netherlands. Mr. Westerhof holds a Master's degree in Business Administration at the Erasmus University of Rotterdam. He is also a graduate from Harvard Business School's Advanced Management Program and International Senior Management Program.

Ms. WU Shihong

Ms. WU Shihong

aged 52, is an Independent Non-executive Director of the Company. She has extensive experience in the information technology industry. Ms. Wu joined IBM China in 1985 and she was a General Manager, Channel Management of IBM China from May 1997 to February 1998. She then became a General Manager of Microsoft China Co. Ltd. until August 1999. From 1999 to 2002, Ms. Wu was a Vice President of TCL Corporation, and General Manager of TCL Information Technology Industrial (Group) Co. Ltd., a wholly owned subsidiary of the Company. Since January 2002, she has been studying in the area of philanthropy. Ms. Wu was elected by the "Fortune" magazine as one of the "Most Powerful Business Women in the World" in year 2001 (No. 27) and year 2002 (No.24).

SENIOR MANAGEMENT

Mr. HAN Qing

aged 37, currently is a Vice President, Deputy General Manager of Flat Panel Display Business Unit, and General Manager of China Business Center of the Company. He is also a Vice President of TCL Corporation. Mr. Han joined TCL Group in 1994. He had held the positions of Chief Representative of Shenyang Office of TCL International Electrics (Huizhou) Co., Ltd., Manager of Planning Department of Beijing Branch of TCL King Electric Appliances Sales Co. Ltd., Department Chief of Northern China Regional Management Center of TCL King Electric Appliances Sales Co. Ltd., Manager of Qinghuangdao Sales Branch of TCL King Electric Appliances Sales Co. Ltd., Deputy General Manager of Beijing Branch of TCL King Electric Appliances Sales Co. Ltd., General Manager of Jinan Branch of TCL King Electric Appliances Sales Co. Ltd., and Sales Director/Deputy General Manager of TCL King Electric Appliances Sales Co. Ltd etc. Mr. Han has rich experience in marketing and sales management, and he possesses business acumen in China TV market. He has strong understanding and confidence in TV industry as well as overall sales strategy. Mr. Han graduated from Jilin Institute of Optics & Mechanics (the predecessor of Changchun University of Technology), and holds Master's degrees in Management and Economics.

Mr. Didier JUIN

aged 51, currently is the Chief Operating Officer of the Company's Europe Business Center and North America Business Center. Mr. Juin joined the Company in March 2008. He had held the positions of Product Manager of Philips TV in Europe and Japan, Senior Manager of Product Strategy and Marketing of Philips, Sourcing Manager of Asia-Pacific of Philips, General Manager of DVD Writer & New Product Business of Philips, and Chief Sourcing Officer of Philips Consumer Electronics etc. Mr. Juin has over 25 years of experience in consumer electronics, including 10 years in Asia-Pacific region. He has a strong background in procurement, product planning and business management. Mr. Juin graduated from University of Le Havre with a Master's Degree in International Business.

Mr. Richard DINSMORE

aged 50, currently is an Executive Deputy General Manager of the Company's North American Business Center. Mr. Dinsmore had worked for Thomson since 1987. His experience includes the management of industrial design, R&D Management, product management, brand management, marketing, and after-sales management. He has 20 years of experience in consumer electronics, and he has a proven track record in leading international teams. Mr. Dinsmore holds a Bachelor's degree from the University of Cincinnati and has completed post graduate studies at Syracuse University (ESF), Lemoyne College and University of Michigan.

Directors and Senior Management

Mr. CHEN Wu, Morgan

aged 37, currently is a Vice President and General Manager of CRT Business Unit of the Company. Mr. Chen joined TCL Group in 1993. He had held the positions of Manager Assistant of Shouhua Electronics, Manager Assistant of LG Electronics (China), Manager of TV Business Unit of the Company, Deputy General Manager of TCL Communication Equipment Co., Ltd., General Manager of Overseas Business Unit of TCL Corporation, Vice President of TTE' s North America Business Center and Europe Business Center, and General Manager of the Company's Global Operations Center etc. Mr. Chen has extensive experience in the industrial sector and the ability to explore and optimize the resources with broad international outlook. Mr. Chen graduated from Xi'an Petroleum University with a Bachelor's degree in Engineering.

Mr. YAN Fei

aged 46, is currently a Vice President and General Manager of Flat Panel Display Business Unit of the Company. Prior to joining the Company in 2004, he had held the positions of various technical and management positions in multinational companies such as Schlumberger, Saint-Gobain and Sagem. After joining the Company, he had held the positions of General Manager of Strategic-OEM Business Unit, and General Manager of Europe Business Center of the Company. Mr. Yan has extensive cross-culture management experience in manufacturing, electronics and high-tech sector. He holds a Bachelor's degree in Engineering from Northwest Polytechnic University of China, a Master's degree in Engineering and a Ph.D degree in Applied Sciences from Louvain University, Belgium. He had also been assistant professor of Louvain University.

Mr. CHEN Xiaochun

aged 41, is currently a Vice President and General Manager of Global R&D Center of the Company. Mr. Chen joined the Company in 2002. He had held the positions of Software Engineer of Changzhou Computers, General Manager of development department of Changzhou Boda Electronics, Product Engineer of Philips Holand, Integration Chief of Philips Singapore, Senior software engineer, Chief of Software, and Deputy General Manager of Global R&D Center of the Company. Mr. Chen has over 20 years of experience in R&D area. He graduated from China Southeast University with a Bachelor's degree in Mathematics.

Mr. WONG Kai Sing

aged 59, is currently a Corporate Vice President of Business Development & Special Projects and General Manager of Global Industry Center of the Company. Mr. Wong joined the Company in April 2008. He had held the positions of production line manager, Chief Engineer, Production Manager, Project Manager in TV plant of Philips in Singapore, and General Manager of AV plant of Philips Consumer Electronics (Singapore), Senior Director of Project Management and Planning of TV Business of Philips Consumer Electronics, Senior Director of Global Manufacturing Operations of DVD and Audio System BU of Philips Electronics, President of Project Management and Planning of Home Entertainment Business Unit of Philips Consumer Electronics, President and General Manager of AV Business Group of Philips Consumer Electronics etc. Mr. Wong has rich experience in operations management, especially in manufacturing and project management. He graduated from University of Singapore with a Bachelor's degree in Mechanics.

Mr. LEE Kheng Hock

aged 55, currently is a Vice President and General Manager of Strategic Purchasing & Supply Chain Management of the Company. Mr. Lee joined the Company in November 2007. He had held the positions of Sourcing Assistant of Philips Singapore, Material Manager/Senior Procurement Officer/Material Coordinator of ASTEC International (Singapore), Managing Director/Vice President of Asia Supply Chain Operations/Director of Supply Chain Management/Director of Aisa International Sourcing/Director of Material/Manager of Supply Chain Management/Manager of International Sourcing in Compaq Asia (Singapore), Director of Material of Kulicke & Soffa Semiconductor (Singapore), and Vice President/Supply Chain Vice President of Philips Consumer Electronics (Singapore). Mr. Lee has extensive experience in global procurement and supply chain sectors. Mr. Lee graduated from Singapore Institute of Management and Singapore Polytechnic, and holds a Bachelor's degree in Management Science and Chemistry Engineering. He also holds a MBA degree from University of Strathclyde, UK.

Mr. Etienne DUCROT

aged 49, currently is a Chief Technology Officer of the Company. Mr. Ducrot joined the Company in January 2008. He has been a Chief of Philips Consumer Electronics (Dreux- France), Manager/Director of Business Development, Manager/Director of Philips Consumer Electronics (Singapore) Basic TV Business Development, General Manager/Vice President of Digital Mainstream TV, General Manager/Vice President of Mainstream Flat Panel Display Business, and Manager/Vice President of Technology and Development of Entertainment Solutions Business Group etc. Mr. Ducrot has over 20 years of experience in consumer electronics, semiconductor and telecommunication sectors. He has a Master's degree in Electronics and Automation from ICN Nancy, France and a Master's degree in Engineering Sciences from Ecole Superieure d'Electricite (ESE), France.

Directors and Senior Management

Mr. YUAN Yi

aged 42, currently is the CFO of the Company. Mr. Yuan joined TCL Group in 1997. He has been a Chief Account of Cost of TCL King Electrical Appliances (Huizhou) Co., Ltd., Finance Manager of Inner Mongolia TCL King Electrical Appliance Co., Ltd., Finance Manager of TCL King Electrical Appliances (Huizhou) Co., Ltd., Assistant to General Manager of Finance Center of the Company, Assistant to Senior Vice President of Finance Management Center of TCL Corporation, and Deputy Genearl Manager of Finance Management Center of TCL Corporation etc. Mr. Yuan has extensive experience in financial management. He graduated from Hubei University in 1987.

Mr. CHEN Weidong

(resigned on January 1, 2009), aged 40, was a General Manager of Emerging Markets Business Center of the Company. Mr. Chen joined TCL Group in 1996. He had held the positions of Sales Representative/Office Manager/Deputy General Manager/General Manager of TCL King Electric Appliances Sales Co Ltd. (Lanzhou), Director of Regional Management Center of North-East China, General Manager of Regional Management Center of Northern China, General Manager of Huizhou Management Center, Deputy General Manager/General Manager of TCL King Electronic Appliances Sales Co. Ltd., General Manager of Speed Business Development Co. Ltd, Vice President of TTE etc. Mr. Chen has rich experience in sales management. He graduated from Shanxi Normal University with a Bachelor's degree in Management.

Ms. LI Jinmei

aged 39, is currently an Executive Deputy Director of Human Resources of the company. Ms. Li joined TCL Group in 1993. She had held the positions of a Chief of Overseas Development of TCL Corporation, Secretary of President Office, Chief Representative of TCL Beijing Office, Deputy Director of Public Relations Department of TCL Corporation, Deputy Director of President Office, Deputy General Manager of TCL International Electric (Huizhou), Human Resources Director of Electric Business Unit of TCL Corporation, Human Resources Director/ Vice President of TCL Communications Technology Holdings Limited etc. Ms. Li has over 18 years rich experience in diversified sectors and various fields such as corporate management, human resources management and cross-culture management. She holds a Master's degree in Management from Peking University.

Mr. SIN Man Lung

aged 35, is currently the Financial Controller of the Company. Mr. Sin joined the Company in 2005. He has more than 10 years auditing, finance and accounting experience in multi-national and listed companies. Mr. Sin is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the City University of Hong Kong with a Bachelor's degree in Accountancy.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. LI Dongsheng (Chairman)
Mr. LEONG Yue Wing (Chief executive officer)
Mr. YU Guanghui (appointment effective from 17 February 2009)
Mr. SHI Wanwen
Mr. HUANG Xubin (appointment effective from 1 January 2009)
Mr. WANG Kangping
Mr. YUAN Bing (resigned on 1 January 2009)
Ms. LU Zhongli (resigned on 17 February 2009)

Non-Executive Director

Mr. Albert Thomas DA ROSA, Junior

Independent Non-Executive Directors

Mr. TANG Guliang
Mr. Robert Maarten WESTERHOF
Ms. WU Shihong

COMPANY SECRETARY

Ms. PANG Siu Yin, Solicitor, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISOR

Cheung, Tong & Rosa
Rooms 1621-33, 16/F Sun Hung Kai Centre
30 Harbour Road
Hong Kong

Corporate Information

PRINCIPAL REGISTRAR

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

BRANCH REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL OFFICE

13/F, TCL Tower
8 Tai Chung Road
Tsuen Wan New Territories
Hong Kong

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KYI-1104
Cayman Islands

INVESTOR AND MEDIA RELATIONS

PRChina Limited
Room 301, Wilson House
19-27 Wyndham Street
Central, Hong Kong

Corporate Governance Report

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

CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In April 2005, the Board adopted the code provisions of the "Code on Corporate Governance Practices" (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate. Throughout the year ended 31 December 2008, the Group complied fully with the Code.

A. DIRECTORS

A1: The Board

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

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention.

Corporate Governance Report

During 2008, the Board held 8 regular meetings at about quarterly intervals and 11 additional meetings. Attendance of individual directors at the Board meetings in 2008 is as follows:

	Attendance	
	Regular Board Meetings	Special Board Meetings
Executive Directors		
Mr. LI Dongsheng (Chairman)	5/8	6/11
Mr. LEONG Yue Wing (CEO)	6/8	11/11
Mr. SHI Wanwen	1/8	2/11
Mr. WANG Kangping	5/8	7/11
Mr. YUAN Bing (resigned on 1 January 2009)	8/8	10/11
Ms. LU Zhongli (resigned on 17 February 2009)	7/8	11/11
Non-Executive Director		
Mr. Albert Thomas DA ROSA, Junior	7/8	11/11
Independent Non-Executive Directors		
Mr. TANG Guliang	7/8	9/11
Mr. Robert Maarten WESTERHOF	8/8	9/11
Ms. WU Shihong	7/8	9/11

A2: Chairman and Chief Executive Officer

The position of Chairman is held by Mr. LI Dongsheng and the position of CEO is held by Mr. LEONG Yue Wing. The segregation of duties and responsibilities between the Chairman and the CEO has been clearly established. A clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Group is also ensured.

A3: Board Composition

The Board currently comprises 10 directors, including 6 executive directors, 1 non-executive director ("NED") and 3 independent non-executive directors ("INEDs"). The composition of the Board has undergone the following changes since 31 December 2007:

1. Mr. YUAN Bing resigned as an executive director on 1 January 2009;

2. Ms. LU Zhongli resigned as an executive director on 17 February 2009;

3. Mr. HUANG Xubin has become an executive director since 1 January 2009; and

4. Mr. YU Guanghui has become an executive director since 17 February 2009.

Details of the biographies of the directors are given under the section "Directors and Senior Management" of this Annual Report. None of the directors is related to each other.

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

Corporate Governance Report

Throughout the year of 2008, the Board at all times met the requirements for having at least 3 INEDs, and that at least one of them had appropriate professional qualifications of accounting or related financial management expertise. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED of his/her independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

A4: Appointment, Re-election and Removal

Nomination of Directors

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

In 2008, there was 1 Board meeting during which the Board considered matters regarding the nomination and/or appointment or re-appointment of director(s), and the attendance record of the directors at this meeting is as follows:

	Attendance
Mr. LI Dongsheng (Chairman)	1/1
Mr. LEONG Yue Wing (CEO)	1/1
Mr. SHI Wanwen	1/1
Mr. WANG Kangping	1/1
Mr. YUAN Bing (resigned on 1 January 2009)	1/1
Ms. LU Zhongli (resigned on 17 February 2009)	1/1
Mr. Albert Thomas DA ROSA, Junior	1/1
Mr. TANG Guliang	1/1
Mr. Robert Maarten WESTERHOF	1/1
Ms. WU Shihong	1/1

During the meeting, the Board considered the nomination and appointment of Mr. HUANG Xubin as an executive director whose term was effective from 1 January 2009.

The Board adopted a "Procedure and Criteria for Nomination of Directors" in 2005, the details of which are set out below:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors

    (a) Character and integrity

    (b) The willingness to assume broad fiduciary responsibility

    (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs

    (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company

Corporate Governance Report

(e) Significant business or public experience relevant and beneficial to the Board and the Company

(f) Breadth of knowledge about issues affecting the Company

(g) Ability to objectively analyse complex business problems and exercise sound business judgment

(h) Ability and willingness to contribute special competencies to Board activities

(i) Fit with the Company's culture

2. Criteria Applicable to NEDs/INEDs

(a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings

(b) Accomplishments of the candidate in his/her field

(c) Outstanding professional and personal reputation

(d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

One-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the annual general meeting ("AGM") in each year, and the NEDs are elected to hold office for a special term until the next AGM.

In the AGM held on 21 April 2008, one-third of the directors (namely Mr. LI Dongsheng, Ms. LU Zhongli, Mr. WANG Kangping and Mr. Robert Maarten WESTERHOF) were subject to retirement by rotation and were re-elected. All the other non-executive directors (namely Mr. Albert Thomas DA ROSA, Junior, Mr. TANG Guliang and Ms. WU Shihong) were elected to hold office for a specific term until the next AGM to be held in 2009.

A5: Responsibilities of Directors

Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group. All directors have confirmed, following specific enquiry by the Group, that throughout year 2008 they complied with the required standard set out in the Model Code for securities transactions. The directors' interests in shares of the Group as at 31 December 2008 are set out in the section "Report of the Directors" of this Annual Report.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B1: The Level and Make-up of Remuneration and Disclosures

Remuneration of Directors

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

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

The Remuneration Committee now consists of 3 members, the majority of whom are INEDs, namely Ms. WU Shihong, who is also the chairman of the Remuneration Committee, Mr. TANG Guliang and Mr. Albert Thomas DA ROSA, Junior.

5 Remuneration Committee meetings were held on 23 January 2008, 28 January 2008, 20 March 2008, 14 April 2008 and 22 December 2008 respectively which all the current 3 members Ms. WU Shihong, Mr. TANG Guliang and Mr. Albert Thomas DA ROSA, Junior attended. The work performed during these meetings include the following:

- review of the emolument policy and the levels of remuneration paid to the directors and senior management of the Group;
- determination of the amount of bonus to be paid to certain executive director and senior management; and
- determination of the remuneration packages of the chief financial officer and certain senior management.

Corporate Governance Report

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and caliber, the Group provides a competitive remuneration package to its executive directors and senior management. This comprises base monthly salary, guaranteed cash benefits and allowances, special allowances, variable pay, long-term incentive plan which includes share option scheme and restricted share award scheme. The amount of variable pay is set at a percentage of the fixed pay, and is paid half-yearly or yearly relative to performance delivered through plans and objectives which have pre-determined criteria and standards. Long-term incentive plan primarily consists of share options to subscribe for the shares of the Company and shares of the Company purchased by trustee under the restricted share award scheme respectively. Please refer to the Company's announcement and circular dated 6 February 2008 and 20 March 2008 respectively for details of the restricted share award scheme. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

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

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

- directors' fee, which is usually paid annually; and

- share options or restricted shares which are awarded subject to the discretion of the Board.

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

C. ACCOUNTABILITY AND AUDIT

C1: Financial Reporting

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

As at 31 December 2008, the Group had net assets of approximately HK$3,413 million, the Group also recorded a loss attributable to equity holders of the parent of approximately HK$268 million for the year ended 31 December 2008.

In July 2007, secured convertible bonds to be due in 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million) were issued by the Company.

On 25 March 2008, one of the early redemption events of the Bonds occurred, namely, the closing price to the Company for each of any of the 20 trading days falling within a period of 30 consecutive trading days was at least 30% below the conversion price of the Bonds at HK$0.65 per share. In compliance with the relevant terms and conditions of the Bonds, the Company issued a notice on 8 April 2008 to inform all bondholders of the occurrence of the abovementioned redemption event and their rights to request the Company to redeem all or some of their Bonds. The Company received notices of request from all the bondholders requesting the Company to redeem the Bonds at certain determined early redemption amount of an aggregate amount of approximately US$150.9 million (equivalent to approximately HK$1,176,295,680).

On 30 May 2008, the Company entered into the subscription agreements with T.C.L. Industries Holdings (H.K.) Limited ("T.C.L. Industries"), its concerted parties and a number of other investors (the "Subscribers"), pursuant to which the Company conditionally agreed to issue new shares of the Company to the Subscribers for an aggregate amount of HK$1,206,269,010 (the "Subscription").

The Subscription was approved by the independent shareholders at the extraordinary general meeting of the Company ("EGM") held on 15 August 2008. The Company settled the payment of the above early redemption amount out of the Subscription monies and redeemed the Bonds in full. The Subscription monies received were treated as capital on 21 August 2008.

The financial statements set out on pages 68 to 163 were prepared on a going concern basis.

Corporate Governance Report

C2: Internal Controls

The Board is responsible for ensuring that an effective internal control system is maintained within the Group. The Directors acknowledge their responsibility to establish, maintain and review from time to time the effectiveness of the Group's system of internal controls. During the year under review, the directors, through the Audit Committee, have reviewed the effectiveness of the internal control system of the Group.

The Group has adopted a set of internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the Executive Committee of the Board.

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company's internal audit department independently reviewed the effectiveness of the internal controls, including financial, operational and compliance, in the key activities of the Group's business. The head of the Company's internal audit department reports to the Audit Committee.

For the year of 2008, no critical internal control issues have been identified.

C3: Audit Committee

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

The Audit Committee currently comprises 3 members, namely Mr. TANG Guliang, Mr. Albert Thomas DA ROSA, Junior and Ms. WU Shihong. Mr. TANG Guliang is the chairman of the Audit Committee. He is a certified public accountant in the PRC and a professor at the Beijing University of International Business and Economics School of Business. The Audit Committee meets at least 4 times a year to review the Group's quarterly, interim and annual results.

During year 2008, the Audit Committee met 5 times which all the current 3 members Mr. TANG Guliang, Mr. Albert Thomas DA ROSA, Junior and Ms. WU Shihong attended.

The Audit Committee meetings are normally attended by the Group's financial controller. When meetings concern the routine finance control, the head of the internal control department of the Company also attends the meeting to report on the problems identified during the internal control audits and recommendation of methods to alleviate and solve the problems identified. The external auditors are often present on discussion of the audit of financial results and audit planning.

The work completed by the Audit Committee during 2008 included consideration of the following matters:

- recommendation to the Board for tightening risk control management in response to impacts of financial tsunami;
- accounting treatments adopted by the Group for preparing the financial results including the accounting treatments of the liabilities under the convertible bonds;
- the completeness and accuracy of the 2007 annual and 2008 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the internal control reports submitted by the internal audit department of the Company;
- the management letter prepared by the external auditors;

Corporate Governance Report

- the audit fees payable to external auditors, the scope and timetable of the audit for year 2008; and

- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors.

For the year under review, the remuneration paid for services provided by the auditors is roughly as follows:

Audit services	HK$19,622,000
Non-audit services (which include taxation compliance and agreed upon procedures)	HK$4,809,000

D. DELEGATION BY THE BOARD

D1: Management functions

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

- corporate and capital structure;

- corporate strategy;

- significant policies affecting the Group as a whole;

- business plan, budgets and public announcements;

- delegation to the Chairman, and delegation to and by Board Committees;

- key financial matters;

- appointment, removal or reappointment of Board members, senior management and auditors;

- remuneration of directors and senior management; and

- communication with key stakeholders, including shareholders and regulatory bodies.

D2: Board Committees

Executive Committee

The Board established the Executive Committee in October 2005 with specific written terms of reference. The Board has delegated responsibilities to the Executive Committee for making certain decisions for the management of the Group.

E. INVESTOR RELATIONS

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

The investor relations team receives full support from the senior management. It maintains close contact and interactive dialogue with its key communication groups via different channels such as one-on-one meetings with analysts and fund managers, corporate presentations, telephone conference calls, company visits, media conferences and distribution of press releases.

To offer investors accurate information to investors and shareholders on a timely and fair disclosure basis, a series of public events were hosted by directors and senior management right after results announcements. These served as interactive platforms for the management to address questions from investors and the media.

TCL Corporation is the ultimate controlling shareholder of the Company which holds about 54% interests in the Company. TCL Corporation is a company with its shares listed on the Shenzhen Stock Exchange (Stock code: 000100). Details are shown in the section entitled “Corporate Structure”.

Corporate Governance Report

Key investor events in 2008

Events	Date
2007 Annual Results Announcement – Media Conference and Analyst Briefing	13 March
2008 Annual General Meeting	21 April
2008 1st Quarter Results Announcement – Media Conference and Analyst Briefing	29 April
EGM (Subscription for new shares, assignment of loan, whitewash waiver, redemption of convertible bonds)	15 July
EGM (Subscription for new shares, whitewash waiver, redemption of convertible bonds)	15 August
2008 Interim Results Announcement – Media Conference and Analyst Briefing	20 August
Investor Conference Call	23 September
Media Conference Call	9 October
Media Interview of CEO	13 October
2008 3rd Quarter Results Announcement – Media Conference and Analyst Briefing	28 October
Media Conference Call	29 October
EGM (Renewal of various continuing connected transactions and new continuing connected transactions)	25 November
Media Conference Call	17 December
Plants Visit	18 December

Going forward, the investor relations team will continue to work diligently to maintain the highest level of corporate transparency. To facilitate easy access to the Company's latest corporate developments, all published information of the Group, including statutory announcements, corporate presentations, press releases and event calendars is promptly posted on the corporate website www.tclhk.com. Enquiries can also be sent to the Board or senior management by contacting the Investor Relations Department at telephone +852 2437 7481 or via email to hk.ir@tcl.com, or directly through the questions and answers session at shareholder meetings.

Human Resources & Social Responsibility

HUMAN RESOURCES:

The mission in human resources management of the Group is "Supporting Corporate Strategies, Enhancing Group Performance, and Assisting Staff Development". During the year 2008, the Group had commenced various initiatives in relation to corporate strategies, business strategies and team building, which directly supported corporate strategic and business development.

1. Basic Information of Human Resources

As of 31 December 2008, there were 28,408 employees in aggregate, and globally, approximately 12% of them are based outside of Mainland China, as indicated below:

China mainland	25,025	88.1%
Rest of Asia	1,333	4.7%
North America	747	2.6%
Europe	1,303	4.6%

In term of personnel structure, approximately 33% of the employees are either management, technical or professional staffs, while the remaining 67% are mostly factory workers.

Compared with the corresponding period last year, efficiency per headcount had been increased, and experience in internationalized operation and capabilities in cross-cultural management of the Group had also been further enhanced.

Human Resources & Social Responsibility

2. Key Contributions in Human Resources

During last year, external market environment had been changed dramatically, the industry was advancing rapidly, and economic crisis worsened during the second half of the year. In complementing with the Group's corporate development strategies and business strategies, the Group had actively initiated measures in several aspects such as group capabilities, evaluation and incentives, and personnel development:

– Pursuant to the business development plan, the Group had carried out a series of structural adjustments. CRT Business Unit had been established in response to the industrial changes, and the existing global LCD manufacturing business unit had been reorganized; Global Technology and Quality Management Center had been set up; Active measures in business strategies and arrangements had also been initiated in respond to the changes to the new markets.

– Pursuant to corporate business development strategies and current situation in human resources management, mid-term (for a 3-year period) human resources management plan and working plan for the year 2009 had been prepared.

– Unified "Key Performance Indicators" (KPI) reviews and "Contract To Success" (CTS) for key personnel had been carried out, which gradually subdivided the business targets, ensuring the Group's results would be achieved, and provided supports to the Group's quantitative management and objective evaluation to the staffs' performance and capabilities.

– Global Grading System (GGS) for key personnel, together with the remuneration structure based on the GGS, had been established, and corporate-wide implementation of GGS had been carried out in phases. Furthermore, performance based incentive structures to retain key staffs had also been unified.

3. Unified human resources policies and management integration were implemented, which promoted team building and corporate culture forming under the concept of "ONE TCL Multimedia":

– The "ONE TCL Multimedia" concept rationalized internal governance structure of human resources functions and clarifies divisions of labor and positioning amongst Headquarters Human Resources, Business Unit Human Resources and direct managers. This concept established a solid foundation of integrated human resources management within the Group.

– Actively initiated a corporate wide policy and process unification on GGS grading management, principles and framework for performance management, incentive structures and centralized staff recruitment and training The integration had won initial success.

– Effectively promoted communications and cooperation within cross-cultural teams through various team activities.

– Initiated by the Group's CEO, improvement activities such as "I CAN HELP" project were actively promoted and cross-functional project evaluations were implemented; Created good corporate atmosphere, in addition to support business development of the Group, through various ways of internal communications and media transmission.

SOCIAL RESPONSIBILITY

The Group's social responsibility programs continued to expand, such as taking part in social care-giving campaigns, establishing environmentally sound operations, upholding legal rights of the staffs, and systematically starting initiatives in protecting occupational health and safety in 2008.

The Group continuously participates and supports social care-giving campaigns. From the year 2008, Hua Min Fund (華萌基金), established by the managing director of the Group, contributed RMB 2.50 million in a 5-year period to a "Candle Awards of Kantors" (鄉村教師燭光獎) commend scheme to be carried out in Huizhou, Guangdong Province; And also contributed RMB 6 million to support 250 students of the fifth "Hua Min – Hong Zhi Class" (華萌•宏志班) in Hua Luogeng Secondary School (華羅庚中學) for their high school studies. For the third consecutive year, the Group took part in the "Project Hope College Dreams – Together We Care" project organized by the China Youth Development

Human Resources & Social Responsibility

Foundation. With the supports in both manpower and financial ways of the TCL group of companies which the Group belongs to, approximately 100 students from Huizhou, Guangdong Province, China, were able to further their studies. Furthermore, in 2008, the Group had sent 3 outstanding teachers, who were applied on their own accord and selected by the Group, to support local education in rural areas and had won high praise from the public.

The 5.12 earthquake devastated thousands of Chinese. TCL Group dispatched a relief team at the earliest time possible and donated RMB1 million for emergency relief in earthquake-hit area through Guangdong Charity Federation. Meanwhile, the Group's staff initiated their own donation drive to show care for the victims and raised over RMB3 million supplies for relief effort to help the victims to tide over the crisis. For the Group's staff who were affected by the earthquake, the Group offered a helping hand proactively, giving them relief and consolation fund of over RMB600,000. Besides, the Group arranged special home leave for them, reimbursed their travel expenses, and provided mental consolation and help according to the extent of destruction.

In the environment aspect, the Group had enhanced application of the latest power saving technologies. All electricity conservation initiatives during the year 2008 had saved 729 tonnes of standardized coal and had won incentive subsidies of RMB 145.8 thousand from Huizhou; Waste water of the Group is discharged into Zhong Kai Sewage Treatment Plant for centralized treatment; Industrial exhaust treatment facility is operated effectively that meet the standard of exhaust to be discharged; and the Group has obtained ISO14001 certification in environment management system and has also passed certification reviews by the external certification body.

Staff is the most valuable asset of an enterprise and being people-oriented is one of the Group's business philosophies. An enterprise has the responsible to continuously improve the working and living conditions of its staffs, to meet their legitimate rights and enhance their welfare and benefits, and to provide the platform for professional development. The Group undertakes to comply with applicable labour and employment laws, including respect of privacy, recognition of the rights of its staffs to participate in collective bargaining, no forced labour, proper arrangement of working hours, settle its payroll according to law, no employment of child labour, and elimination of any discrimination. The Group advocates and shoulders its social responsibilities proactively. As the Group has been practicing labour management that complies to laws and regulations, the new Labour Contract Law implemented on 1 January 2008 had no significant impact on the Group. Meanwhile, the Group proactively reorganized and further improved its internal employment policy and code of practice on staff relationship according to the new Labour Contract Law. In addition to purchase of various social insurance such as industrial injury, health, unemployment, pension and maternity insurance for all its staffs, The Group also provided other insurance and welfare to some of its staffs, such as business insurance, group pension insurance and housing fund. At the same time, the Group had proper arrangement for working hours and controlled overtime hours so as to protect the rights of its staff to rest and go on holidays according to law. Minors and women staff who are in three phases (pregnancy, perinatal and breast-feeding) are under special care. According to relevant laws and regulations, no minors nor women in pregnancy and breast-feeding phases can be arranged to work at posts that are poisonous or hazardous, nor to work overnight shift. The Group had a total of 125 staff in the above three phases in 2008, all of whom were under proper placement and care.

The Group had obtained OHSAS18000 in December 2005, passed OHSAS18001 successfully in November 2008, and passed several times of review from the clients during the year. It reflects that a comprehensive occasional health and safety management initiative is commenced systematically: personal protection measures (earplugs) are carried out against noise; special equipments such as pressure vessels and safety spare parts/vehicles are inspected regularly in accordance with national requirements; Specific operators are working with certification after training and evaluation, in accordance with relevant requirements; Operational safety rules for major source of danger are prepared; Fire inspection and fire extinguishment/evacuation drills are carried out in accordance with requirements of the Ministry of Public Security; limits for occasional contacts of harmful substances in the workplace were monitored by Huizhou Occupational Hygiene Detection Center (惠州市職業衛生檢測中心) and they met the requirements.

Going forward, the Group will continue to improve its social responsibility programs in line with its position as a global corporation and industry leader.

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 68 to 163.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 164. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

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

The Group raised fund through the Subscription in August 2008 for redemption of the Bonds more particularly described in note 37 to the financial statements.

Details of the shares subscribed by the Subscribers on 21 August 2008 are as follows:

Name of Subscribers	Number of Shares subscribed	Classes of shares issued	Subscription monies received HK$
T.C.L. Industries	3,259,810,909	Ordinary	896,448,000
Creative Honor Overseas Limited	290,909,090	Ordinary	80,000,000
Advance Data Services Limited	141,730,909	Ordinary	38,976,000
Top Scale Company Limited	131,566,545	Ordinary	36,180,800
Info Express Services Limited	28,346,181	Ordinary	7,795,200
Mr. CHEN Hong	141,730,909	Ordinary	38,976,000
Mr. LI Dongsheng	72,727,272	Ordinary	20,000,000
Mr. LEONG Yue Wing	7,272,727	Ordinary	2,000,000
Mr. YUAN Bing	3,636,363	Ordinary	1,000,000
Ms. LU Zhongli	1,090,909	Ordinary	300,000
Mr. BO Lianming	5,178,072	Ordinary	1,423,970
Mr. ZHAO Zhongyao	8,174,363	Ordinary	2,247,950
Ms. LIAO Shaoyao	158,296,472	Ordinary	43,531,530
Mr. WANG Hui	16,293,563	Ordinary	4,480,730
Mr. SONG Yu	65,341,381	Ordinary	17,968,880
Mr. CHAN King Yin Colin	1,163,636	Ordinary	320,000
Ms. HUANG Kaili	26,924,109	Ordinary	7,404,130
Ms. SHAO Wei	26,239,345	Ordinary	7,215,820
	4,386,432,755		1,206,269,010

The payment related to the early redemption of the convertible bonds was financed by the Subscription monies received from the Subscribers pursuant to the Subscription Agreements.

PRE-EMPTIVE RIGHTS

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

Report of the Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

To reflect the management's confidence in the future development of the Group's business and enhance the earnings per share of the Company, the Company repurchased 5,882,000 shares on the Stock Exchange at an aggregate price of HK$1,302,828 during the year under review. The details of the repurchases of the Company's shares on the Stock Exchange as follows:

Month/Year	No. of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate cost paid (excluding transaction costs) HK$'000
January 2008	1,372,000	0.455	0.390	614
March 2008	1,102,000	0.340	0.335	370
October 2008	1,476,000	0.088	0.078	118
November 2008	1,932,000	0.110	0.100	201
	5,882,000			1,303

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2008, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$1,946 million. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK$517,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases	
– the largest supplier	11%
– the five largest suppliers combined	26%

Sales	
– the largest customer	12%
– the five largest customers combined	33%

None of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive directors:

Mr. LI Dongsheng
Mr. LEONG Yue Wing
Mr. YU Guanghui (appointment effective from 17 February 2009)
Mr. SHI Wanwen
Mr. HUANG Xubin (appointment effective from 1 January 2009)
Mr. WANG Kangping
Mr. YUAN Bing (resigned on 1 January 2009)
Ms. LU Zhongli (resigned on 17 February 2009

Non-executive director:

Mr. Albert Thomas DA ROSA, Junior

Independent non-executive directors:

Mr. TANG Guliang
Mr. Robert Maarten WESTERHOF
Ms. WU Shihong

Report of the Directors

In accordance with article 99 of the Company's Articles of Association and the Corporate Governance Code adopted by the Company, Mr. Yu will hold office until the next general meeting of the Company and shall then be eligible for re-election. The Board proposed Mr. Yu to be elected as an executive director of the Company at the forthcoming AGM.

In accordance with article 116 of the Company's articles of association, Mr. LEONG Yue Wing, Mr. SHI Wanwen, Mr. Albert Thomas DA ROSA, Junior and Mr. TANG Guliang will retire by rotation and will be eligible for re-election at the forthcoming AGM. Mr. da Rosa and Mr. Tang will also hold their office until the conclusion of the forthcoming AGM. All of them, being eligible, will offer themselves for re-election at the forthcoming AGM. Mr. Robert Maarten WESTERHOF and Ms. WU Shihong will also hold office until the conclusion of the forthcoming AGM. Both of them, being eligible, will offer themselves for re-election at the forthcoming AGM. Mr. da Rosa, Mr. Tang, Mr. Westerhof and Ms. Wu, all being non-executive directors of the Company, if elected, will hold office until the conclusion of the next AGM to be held in 2010.

EMOLUMENTS OF DIRECTORS AND THE 5 HIGHEST-PAID INDIVIDUALS

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

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

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 33 to 46 of this Annual Report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

PENSION SCHEMES

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 30 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

At 31 December 2008, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Long positions in shares of the Company

Directors	Capacity	Number of shares held	Percentage of issued share capital of the Company
LI Dongsheng	Beneficial owner	285,393,851	2.793%
LEONG Yue Wing	Beneficial owner	8,272,727	0.081%
WANG Kangping	Beneficial owner	150,000	0.001%
YUAN Bing	Beneficial owner	3,636,363	0.036%
LU Zhongli	Beneficial owner	1,090,909	0.011%

Report of the Directors

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

SHARE OPTION SCHEMES

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 2008	Granted during the year	Lapsed during the year	At 31 December 2008	Date of grant of share options	Exercise price of share options HK$	Exercise period of share options	Price of Company's shares: At grant date# HK$	At exercise date HK$
Directors									
Executive directors									
LI Dongsheng	6,000,000	–	(6,000,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	17,990,028	–	–	17,990,028	4-Jul-07	0.630	Note 2	0.600	N/A
	–	13,957,543	–	13,957,543	25-Aug-08	0.245	Note 3	0.237	N/A
	23,990,028	13,957,543	(6,000,000)	31,947,571					
LEONG Yue Wing	–	18,675,714	–	18,675,714	25-Aug-08	0.245	Note 3	0.237	N/A
SHI Wanwen	3,120,000	–	(3,120,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	8,858,955	–	–	8,858,955	4-Jul-07	0.630	Note 2	0.600	N/A
	–	7,323,701	–	7,323,701	25-Aug-08	0.245	Note 3	0.237	N/A
	11,978,955	7,323,701	(3,120,000)	16,182,656					
WANG Kangping	1,680,000	–	(1,680,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	–	836,200	–	836,200	25-Aug-08	0.245	Note 3	0.237	N/A
	1,680,000	836,200	(1,680,000)	836,200					
YUAN Bing	396,000	–	(396,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	1,820,033	–	–	1,820,033	4-Jul-07	0.630	Note 2	0.600	N/A
	–	4,498,050	–	4,498,050	25-Aug-08	0.245	Note 3	0.237	N/A
	2,216,033	4,498,050	(396,000)	6,318,083					
LU Zhongli	3,000,000	–	(3,000,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	1,300,033	–	–	1,300,033	4-Jul-07	0.630	Note 2	0.600	N/A
	–	1,552,400	–	1,552,400	25-Aug-08	0.245	Note 3	0.237	N/A
	4,300,033	1,552,400	(3,000,000)	2,852,433					
	44,165,049	46,843,608	(14,196,000)	76,812,657					
Non-Executive directors									
Albert Thomas DA ROSA, Junior	360,000	–	(360,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	–	300,000	–	300,000	25-Aug-08	0.245	Note 3	0.237	N/A
	360,000	300,000	(360,000)	300,000					
TANG Guliang	360,000	–	(360,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	–	300,000	–	300,000	25-Aug-08	0.245	Note 3	0.237	N/A
	360,000	300,000	(360,000)	300,000					
Robert Maarten WESTERHOF	–	300,000	–	300,000	25-Aug-08	0.245	Note 3	0.237	N/A
WU Shihong	–	300,000	–	300,000	25-Aug-08	0.245	Note 3	0.237	N/A
	720,000	1,200,000	(720,000)	1,200,000					
Other employees and those who have contributed or may contribute to the Group	124,722,000	–	(124,722,000)	–	31-May-05	1.167⊕	Note 1	1.410	N/A
	200,933,036	–	(8,057,929)	192,875,107	4-Jul-07	0.630	Note 2	0.600	N/A
	–	148,345,581	(1,609,335)	146,736,246	25-Aug-08	0.245	Note 3	0.237	N/A
	325,655,036	148,345,581	(134,389,264)	339,611,353					
	370,540,085	196,389,189	(149,305,264)	417,624,010					

⊕ Upon the Rights Issue become unconditional, the exercise price of and the number of Shares issuable upon exercise in full of the Outstanding Options will be adjusted with effect from the date on which the Rights Issue becomes unconditional.

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.

Note 1: One-third of such share options are 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.

Note 2: One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 3: One-third of such share options are exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

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

Directors	Name of capital associated corporation	Capacity	Number of shares held	Percentage of issued share in associated corporation
LI Dongsheng	TCL Corporation	Beneficial owner	97,562,400	3.772%
LI Dongsheng	TCL Communication	Beneficial owner	153,074,800	2.141%
SHI Wanwen	TCL Corporation	Beneficial owner	1,712,599	0.066%
WANG Kangping	TCL Communication	Beneficial owner	80,000	0.001%
YUAN Bing	TCL Communication	Beneficial owner	2,116,000	0.029%

Notes:

1. TCL Corporation ("TCL Corporation") a joint stock company established under the laws of the PRC is the ultimate controlling shareholder of the Company.

2. TCL Communication Technology Holdings Limited ("TCL Communication") is a subsidiary of TCL Corporation.

Report of the Directors

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

Directors	Name of associated corporation	Capacity	Number of underlying shares held	Percentage of issued share capital in associated corporation
LI Dongsheng	TCL Communication	Beneficial owner	26,512,049	0.371%
SHI Wanwen	TCL Communication	Beneficial owner	654,546	0.009%
WANG Kangping	TCL Communication	Beneficial owner	3,027,274	0.042%
YUAN Bing	TCL Communication	Beneficial owner	4,525,664	0.063%
LU Zhongli	TCL Communication	Beneficial owner	7,748,225	0.108%

Save as disclosed above, as at 31 December 2008, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEMES

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

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

SHARE AWARD SCHEMES

The Board on 6 February 2008 resolved to adopt the Share Award Scheme (the "Share Award Scheme") pursuant to which existing shares would be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the scheme.

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

At 31 December 2008, the interests and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

(i) Long positions in shares of the Company:

Shareholders	Capacity	Number of shares held	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	5,563,992,842 *(Note 1)*	54.451%

Notes:

1. TCL Corporation was deemed to be interested in 5,563,992,842 shares held by T.C.L. Industries, its direct wholly owned subsidiary, for the purpose of the SFO.

2. The following Directors are directors/employees of TCL Corporation which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

    (a) Mr. LI Dongsheng is the chairman, CEO of TCL Corporation;

    (b) Mr. LEONG Yue Wing is a senior vice president of TCL Corporation;

    (c) Mr. SHI Wanwen is a senior vice president of TCL Corporation;

    (d) Mr. WANG Kangping is a vice president of TCL Corporation; and

    (e) Mr. YUAN Bing is a vice president of TCL Corporation.

Save as disclosed above, as at 31 December 2008, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Report of the Directors

CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (excluding the Group) (being an associate (as defined in the Listing Rules) of TCL Corporation) (collectively, the "TCL Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2008:

(a) On 30 May 2008, the Company entered into the subscription agreements (the "Subscription Agreements") with T.C.L. Industries, its concerted parties and a number of other investors (i.e. the "Subscribers"), pursuant to which the Subscribers conditionally agreed to subscribe for and the Company conditionally agreed to issue such number of new shares of the Company (the "Subscription Shares") at the subscription price (the "Subscription Price") as defined below for an aggregate amount of HK$1,206,269,010, the aggregate investment amount paid by the Subscribers as deposit for the Subscription. The Subscription Price was subsequently fixed at HK$0.275, which was equal to 15% discount to the average closing price of approximately HK$0.324 per share of the Company as stated in the daily quotation sheets of the Stock Exchange for 10 trading days immediately after the date of the announcement of the Company dated 6 June 2008, namely, from 10 June 2008 to 23 June 2008. Accordingly, the Subscribers (including T.C.L. Industries) were entitled to allotment of 4,386,432,755 Subscription Shares under the Subscription Agreements.

    The Subscription was approved by the independent shareholders of the Company at the EGM held on 15 August 2008. Completion of the Subscription Agreements took place on 21 August 2008 when the Subscription monies received were treated as capital and on completion, the interests held by T.C.L. Industries increased from 39.487% to 54.433% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

(b) On 5 December 2008, TCL King Electrical Appliance (Huizhou) Co. Ltd ("TCL King (Huizhou)"), an indirect wholly owned subsidiary of the Company, entered into the Transfer Agreement with TCL Optoelectronics Technology (Huizhou) Co., Ltd, a direct wholly owned subsidiary of TCL Corporation, to acquire certain land use rights for a land in Huizhou, PRC at a consideration of RMB21,569,459 (equivalent to approximately HK$24,373,489).

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2008:

(a) Pursuant to the Master Sourcing Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK$723,173,000; (ii) purchased overseas materials from TCL Group amounting to HK$1,063,472,000 during the year.

(b) Pursuant to the Master Supply Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from the TCL Group amounting to HK$130,086,000; (ii) sold goods to TCL Group amounting to HK$7,138,000 during the year.

(c) Pursuant to the Master Subcontracting Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group paid subcontracting fees amounting to HK$11,345,000 during the year.

(d) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 (as extended on 5 January 2007) entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Group for the supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from the TCL Group amounting to HK$21,277,000 during the year.

    The caps for the transactions under Master Overseas Supply Agreement for the year 2008 had been revised on 15 February 2007.

(e) Pursuant to the Lease Framework Agreement dated 21 June 2006 entered into between the Company and TCL Corporation, the Group paid rental expenses to TCL Group amounting to HK$5,968,000 during the year.

(f) Pursuant to the Financial Services Framework Agreement dated 27 October 2006 entered into among the Company, TCL Corporation and TCL Finance Co. Ltd. (the “Finance Company”), a non-wholly owned subsidiary of TCL Corporation, the Group paid fees and commissions for the Other Financial Services thereunder amounting to HK$351,000 during the year. The maximum outstanding balances of deposits placed by the Group with the Finance Company during the year was HK$558,040,000.

Report of the Directors

(g) Pursuant to the Master Logistics Service Supply Agreement dated 5 January 2007 entered into between the Company and Shenzhen Speed Distribution Platform Co., Ltd (the "Speed Distribution"), a wholly owned subsidiary of TCL Corporation, the Group may from time to time request Speed Distribution for provision of certain logistics services. During the year, HK$45,098,000 was paid by the Group to Speed Distribution for all the cost and expenses incurred by Speed Distribution for provision of the logistics services.

(h) Pursuant to the Master Call Centre Services Supply Agreement dated 5 January 2007 entered into between the Company and TCL Corporation, TCL Corporation has agreed to provide the call centre services to the Group. During the year, HK$16,850,000 was paid by the Group to TCL Corporation for all the cost and expenses incurred by TCL Corporation for provision of the call centre services.

(i) Pursuant to the TCL Preferred Supplier Agreement dated 30 July 2004 entered into between TTE Corporation ("TTE") and TCL Corporation under which TTE appointed TCL Group as one of the only two preferred suppliers for certain components and should give priority to TCL Group for the supply of the components, the Group paid to TCL Group HK$412,243,000 for the purchases of the components. The TCL Preferred Supplier Agreement was terminated on 9 October 2008 and thereafter all further purchases of the components from TCL Group by the Group originally under the TCL Preferred Supplier Agreement had been made under the Sourcing of Goods pursuant to the Master Supply Agreement.

The caps for the transactions under TCL Preferred Supplier Agreement for the year 2008 had been revised on 15 February 2007.

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

During the year, no payment has been made by the Group to TCL Corporation as royalties and HK$78,891,000 was paid by the Group to TCL Corporation as reimbursement of branding advertising costs.

The caps for the transactions under TCL Trademark License Agreement for the year 2008 had been revised on 15 February 2007.

(k) Pursuant to the Framework Agreement dated 10 September 2007 entered into between TTE and T&A Mobile Phones International Limited ("T&A"), a wholly owned subsidiary of TCL Communication Technology Holdings Limited, which in turn is a subsidiary of TCL Corporation under which TTE and its subsidiaries agrees (i) to procure the materials from T&A, (ii) to manufacture, assemble and/or test mobile phone products, as well as provide services for pre-production and production ramp-up and to deliver the products to T&A and (iii) to sell the products to T&A at the price agreed between the parties in accordance with the terms of the agreement. During the year, the material purchased from T&A amounting to HK$178,354,000 while the products sold to T&A amounting to HK$213,092,000.

(l) Pursuant to the Lease dated on 31 December 2007 entered into between TCL King (Huizhou) as lessee and Huizhou TCL Real Estate, a non-wholly owned subsidiary of TCL Corporation, as landlord. The Group paid rental expenses and management fee to TCL Corporation amounting to HK$32,717,000 during the year.

(m) The Company entered into the Loan and Charge Agreement with TCL Corporation on 9 October 2008, during the year, no facility amount thereunder was utilized by the Group and no asset of the Group was pledged as security thereunder.

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

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

Report of the Directors

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events of the Group are set out in note 45 to the financial statements.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 33 to 46 in this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on the same terms as set out in the Model Code. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2008.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

AUDITORS

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

ON BEHALF OF THE BOARD

LI Dongsheng
Chairman

Hong Kong
25 March 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of TCL Multimedia Technology Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of TCL Multimedia Technology Holdings Limited set out on pages 68 to 163, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

25 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TURNOVER	5	**25,773,322**	21,294,104
Cost of sales		**(21,666,105)**	(17,727,588)
Gross profit		**4,107,217**	3,566,516
Other revenue and gains		**197,231**	229,333
Selling and distribution costs		**(2,823,614)**	(2,857,109)
Administrative expenses		**(931,362)**	(889,789)
Research and development costs		**(155,716)**	(139,046)
Other operating expenses		**(62,340)**	(98,728)
		331,416	(188,823)
Costs in connection with the restructuring and winding-down of the old European business, net		**–**	17,974
Finance costs (excluding finance costs on convertible bonds)	6	**(152,593)**	(181,675)
Share of profits and losses of:			
Jointly-controlled entities		**(4,859)**	(3,925)
Associates		**2,235**	1,707
		176,199	(354,742)
Fair value gain on the derivative component of convertible bonds	34	**374,514**	241,417
Loss on early redemption of convertible bonds	34	**(610,883)**	–
Finance costs on convertible bonds	6	**(72,246)**	(87,938)
LOSS BEFORE TAX	7	**(132,416)**	(201,263)
Tax	10	**(119,045)**	(51,916)
LOSS FOR THE YEAR		**(251,461)**	(253,179)
Attributable to:			
Equity holders of the parent	11	**(268,245)**	(262,016)
Minority interests		**16,784**	8,837
		(251,461)	(253,179)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**HK(36.15) cents**	HK(51.29) cents
Diluted		**N/A**	HK(59.38) cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,390,786**	1,667,073
Prepaid land lease payments	15	**49,977**	75,539
Deposit paid for the acquisition of prepaid land lease payments		**3,407**	–
Goodwill	16	**119,638**	119,638
Other intangible assets	17	**16,988**	42,532
Interests in jointly-controlled entities	19	**116,048**	115,571
Interests in associates	20	**85,834**	78,595
Available-for-sale investments	21	**1,008**	1,008
Prepaid royalty	22	**82,328**	189,235
Deferred tax assets	35	**17,213**	16,852
Total non-current assets		**1,883,227**	2,306,043
CURRENT ASSETS			
Inventories	23	**3,061,568**	3,229,362
Trade receivables	24	**2,111,306**	2,123,881
Factored trade receivables	25	**1,835,241**	610,306
Bills receivable		**674,688**	613,408
Other receivables	27	**675,113**	786,336
Tax recoverable		**12,529**	15,196
Cash and bank balances	28	**2,157,768**	1,095,341
		10,528,213	8,473,830
Non-current assets classified as held for sale	29	**205,528**	–
Total current assets		**10,733,741**	8,473,830
CURRENT LIABILITIES			
Trade payables	30	**4,384,363**	4,136,749
Bills payable		**820,067**	272,988
Tax payable		**161,124**	95,963
Other payables and accruals	31	**1,399,208**	1,483,901
Provisions	32	**128,019**	349,914
Bank advances as consideration for factored trade receivables	25	**1,665,749**	610,306
Interest-bearing bank and other borrowings	33	**488,180**	303,219
Due to TCL Corporation	26	**4,694**	220,359
Due to T.C.L. Industries	26	**117,525**	–
Total current liabilities		**9,168,929**	7,473,399
NET CURRENT ASSETS		**1,564,812**	1,000,431
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,448,039**	3,306,474

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,448,039**	3,306,474
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**–**	131,041
Liability component of convertible bonds	34	**–**	506,698
Derivative component of convertible bonds	34	**–**	374,514
Deferred tax liabilities	35	**11,572**	13,772
Pensions and other post-employment benefits	36	**23,361**	16,875
Total non-current liabilities		**34,933**	1,042,900
Net assets		**3,413,106**	2,263,574
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	37	**1,021,827**	583,772
Reserves	38	**2,266,595**	1,575,284
		3,288,422	2,159,056
Minority interests		**124,684**	104,518
Total equity		**3,413,106**	2,263,574

LI Dongsheng
Director

HUANG Xubin
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Total equity at 1 January		**2,263,574**	1,690,042
Issue of shares	37	**1,206,269**	780,591
Share issuance expenses	37	**(13,628)**	(7,521)
Shares repurchased	37	**(1,319)**	(7,481)
Equity-settled share option arrangements	38	**25,887**	19,743
Purchase of shares for the Award Scheme	37	**(7,808)**	–
Exchange differences on translation of the financial statements of foreign entities	38	**194,926**	41,379
Dividend paid to minority shareholders	38	**(3,334)**	–
Loss for the year	38	**(251,461)**	(253,179)
Total equity at 31 December		**3,413,106**	2,263,574
Total income and expense for the year:			
Attributable to:			
Equity holders of the parent		**(80,035)**	(227,442)
Minority interests		**23,500**	15,642
		(56,535)	(211,800)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(132,416)**	(201,263)
Adjustments for:			
Finance costs (excluding finance costs on convertible bonds)	6	**152,593**	181,675
Share of profits and losses of jointly-controlled entities and associates		**2,624**	2,218
Depreciation	7	**252,646**	245,746
Loss/(gain) on disposal of items of property, plant and equipment and associated prepaid land lease payments, net	7	**39,146**	(18,672)
Bank interest income	7	**(13,760)**	(19,759)
Fair value gain on derivative component of convertible bonds		**(374,514)**	(241,417)
Loss on early redemption of convertible bonds		**610,883**	–
Finance costs on convertible bonds		**72,246**	87,938
Impairment of items of property, plant and equipment	7	**1,680**	7,851
Impairment of other intangible assets	7	**19,958**	36,640
Costs in connection with the restructuring and winding-down of the old European business, net		**–**	(17,974)
Amortisation of other intangible assets	7	**6,597**	4,183
Amortisation of prepaid land lease payments	7	**2,434**	2,842
Equity-settled share option expense	7	**25,887**	19,743
Excess over the cost of a business combination	7	**–**	(981)
		666,004	88,770
Decrease in inventories		**401,738**	193,309
Decrease in trade receivables		**49,581**	290,010
Decrease/(increase) in factored trade receivables		**(1,224,935)**	154,078
Increase in bills receivable		**(28,435)**	(82,941)
Decrease in other receivables		**151,040**	159,148
Increase/(decrease) in trade payables		**129,173**	(268,247)
Increase/(decrease) in bills payable		**531,020**	(157,824)
Decrease in other payables and accruals		**(89,722)**	(625,725)
Decrease in provisions		**(226,497)**	(374,414)
Increase/(decrease) in pensions and other post-employment benefits		**6,955**	(1,873)
Cash generated from/(used in) operations		**365,922**	(625,709)
Interest paid		**(174,714)**	(204,704)
Income taxes paid		**(59,591)**	(63,424)
Net cash inflow/(outflow) from operating activities		**131,617**	(893,837)

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow/(outflow) from operating activities		**131,617**	(893,837)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(180,325)**	(128,028)
Prepayment of land lease payments	15	**–**	(11,908)
Deposit paid for the acquisition of prepaid land lease payments		**(3,407)**	–
Purchases of available-for-sale investments		**–**	(1,008)
Proceeds from disposal of items of property, plant and equipment and associated prepaid land lease payments		**75,717**	364,246
Proceeds from disposal of other intangible assets		**–**	16,624
Acquisition of a subsidiary	39(a)	**–**	(20,026)
Deconsolidation of subsidiaries	39(b)	**–**	(228,338)
Decrease in pledged deposits		**–**	10,000
Interest received		**13,760**	19,759
Net cash inflow/(outflow) from investing activities		**(94,255)**	21,321
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	37	**1,206,269**	780,591
Share issuance expenses	37	**(13,628)**	(7,521)
Repurchase of shares	37	**(1,319)**	(7,481)
Purchase of shares for the Award Scheme	38	**(7,808)**	–
Proceeds from issue of convertible bonds		**–**	1,060,785
Redemption of convertible bonds		**(1,167,949)**	–
New bank and other loans		**10,129,762**	6,274,232
Repayment of bank loans		**(9,041,280)**	(7,889,161)
Decrease in loans from TCL Corporation		**(148,571)**	(150,988)
Dividend paid to minority shareholders		**(3,334)**	–
Net cash inflow from financing activities		**952,142**	60,457
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**989,504**	(812,059)
Cash and cash equivalents at beginning of year		**1,095,341**	1,841,585
Effect of foreign exchange rate changes, net		**72,923**	65,815
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,157,768**	1,095,341
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**2,157,768**	1,095,341

Balance Sheet

31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**1,166,657**	1,165,196
CURRENT ASSETS			
Due from subsidiaries	18	**1,856,459**	1,986,424
Other receivables	27	**5,957**	2,954
Cash and bank balances	28	**5,459**	412
Total current assets		**1,867,875**	1,989,790
CURRENT LIABILITIES			
Tax payable		**3,810**	5,828
Other payables and accruals	31	**29,669**	45,554
Total current liabilities		**33,479**	51,382
NET CURRENT ASSETS		**1,834,396**	1,938,408
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,001,053**	3,103,604
NON-CURRENT LIABILITIES			
Liability component of convertible bonds	34	**–**	506,698
Derivative component of convertible bonds	34	**–**	374,514
Total non-current liabilities		**–**	881,212
Net assets		**3,001,053**	2,222,392
EQUITY			
Issued capital	37	**1,021,827**	583,772
Reserves	38	**1,979,226**	1,638,620
Total equity		**3,001,053**	2,222,392

LI Dongsheng
Director

HUANG Xubin
Director

Notes to Financial Statements

31 December 2008

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were 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

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").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 the derivative financial instruments, which have been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2008

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The acquisition of a subsidiary in prior year had been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is 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.

2.2 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 & HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 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.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Notes to Financial Statements

31 December 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

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 HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. 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.

Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 interests in associates 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively.

Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of impairment of the asset transferred.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is 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.

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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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 an impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) 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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, as further explained in the accounting policy for "Non-current assets classified as held for sale". 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.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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 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 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 2008

2.4 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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 less any allowance for impairment. 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.

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. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment of available-for-sale investments".

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market, economic or legal environment that have an adverse effect on 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.

2.4 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 occurred, 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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. 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 risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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 TCL Corporation and T.C.L. Industries, interest-bearing bank and other borrowings and liability component of convertible bonds 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. The related interest expense is recognised within "finance costs" in the income statement.

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

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 less 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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Convertible bonds

Convertible bonds which are issued with embedded derivative features are split into a liability component and a derivative component and are accounted for as follows:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

At initial recognition the derivative component of the convertible bond is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement. The liability component is subsequently carried at amortised cost. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as considerations for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the total carrying amount of the liability and derivative components is recognised in the income statement.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 that are readily convertible into known amounts of cash, 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.

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 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, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Government grants

Government grants are recognised at their fair values 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) income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 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.

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.

Notes to Financial Statements

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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 benefit 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 or losses are recognised as income or expenses when the net cumulative unrecognised actuarial gains or losses for each individual plan at the end of the previous reporting year exceeded 10% of the defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

2.4 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 dates 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, jointly-controlled entities and associates 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.

Notes to Financial Statements

31 December 2008

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Derecognition of financial assets – Receivables purchase arrangements

The Group has entered into certain receivables purchase arrangements with its banks 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. Accordingly, the relevant trade receivables are not derecognised.

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 assets are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units 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 2008 were HK$119,638,000 (2007: HK$119,638,000) and nil (2007: HK$19,958,000), respectively. Further details are given in notes 16 and 17 to the financial statements, respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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.

Notes to Financial Statements

31 December 2008

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

Estimation uncertainty (continued)

(v) Warranty provisions

As further explained in note 32, 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 values of the share options granted and financial instruments are disclosed in notes 36, 37 and 44, respectively.

4. 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 home networking segment manufactures audio-visual products; and

(c) 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.

4. 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 2008 and 2007.

Group

	Television		Home Networking		Others		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue:										
Sales to external customers	**22,361,029**	17,867,130	**2,843,053**	3,000,836	**569,240**	426,138	**-**	–	**25,773,322**	21,294,104
Intersegment sales	**977,673**	1,283,250	**67,427**	38,217	**13,083**	10,894	**(1,058,183)**	(1,332,361)	**-**	–
Total	**23,338,702**	19,150,380	**2,910,480**	3,039,053	**582,323**	437,032	**(1,058,183)**	(1,332,361)	**25,773,322**	21,294,104
Segment results	**422,353**	(60,273)	**108,555**	95,722	**(56,161)**	(63,977)	**-**	–	**474,747**	(28,528)
Bank interest income									**13,760**	19,759
Corporate expenses									**(157,091)**	(180,054)
Costs in connection with the restructuring and winding-down of the old European business, net	**-**	17,974	**-**	–	**-**	–	**-**	–	**-**	17,974
Finance costs (excluding finance costs on convertible bonds)									**(152,593)**	(181,675)
Share of profits and losses of:										
Jointly-controlled entities	**(4,859)**	(3,925)	**-**	–	**-**	–	**-**	–	**(4,859)**	(3,925)
Associates	**54**	(635)	**-**	–	**2,181**	2,342	**-**	–	**2,235**	1,707
									176,199	(354,742)
Fair value gain on the derivative component of convertible bonds	**-**	–	**-**	–	**374,514**	241,417	**-**	–	**374,514**	241,417
Loss on early redemption of convertible bonds	**-**	–	**-**	–	**(610,883)**	–	**-**	–	**(610,883)**	–
Finance costs on convertible bonds	**-**	–	**-**	–	**(72,246)**	(87,938)	**-**	–	**(72,246)**	(87,938)
Loss before tax									**(132,416)**	(201,263)
Tax									**(119,045)**	(51,916)
Loss for the year									**(251,461)**	(253,179)

Notes to Financial Statements

31 December 2008

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

	Television		Home Networking		Others		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Assets and liabilities										
Segment assets	11,146,498	10,719,483	1,114,241	1,066,871	199,849	128,891	(2,319,488)	(2,466,017)	10,141,100	9,449,228
Interests in jointly-controlled entities	116,048	115,571	-	–	-	–	-	–	116,048	115,571
Interests in associates	2,343	2,153	-	–	83,491	76,442	-	–	85,834	78,595
Unallocated assets									2,273,986	1,136,479
Total assets									12,616,968	10,779,873
Segment liabilities	10,237,806	10,007,504	587,472	496,674	300,559	463,076	(4,340,450)	(4,558,454)	6,785,387	6,408,800
Unallocated liabilities									2,418,475	2,107,499
Total liabilities									9,203,862	8,516,299
Other segment information:										
Depreciation and amortisation	244,441	238,411	7,782	5,278	9,454	9,082	-	–	261,677	252,771
Impairment recognised in the income statement	1,680	7,851	-	–	19,958	36,640	-	–	21,638	44,491
Costs in connection with the restructuring and winding-down of the old European business, net	-	(17,974)	-	–	-	–	-	–	-	(17,974)
Capital expenditure	158,483	110,624	20,913	13,284	929	19,118	-	–	180,325	143,026
Excess over the cost of a business combination	-	–	-	–	-	(981)	-	–	-	(981)

(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 2008 and 2007.

Group

	Mainland China		Europe		North America		Others		Consolidated	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Segment revenue:										
Sales to external customers	11,776,237	10,401,959	1,462,078	875,145	4,110,813	3,645,785	8,424,194	6,371,215	25,773,322	21,294,104
Other segment information:										
Segment assets	5,233,657	4,734,178	844,618	714,269	934,113	1,968,670	3,128,712	2,032,111	10,141,100	9,449,228
Capital expenditure	78,142	70,522	34,855	13,229	5,594	39,750	61,734	19,525	180,325	143,026

5. TURNOVER

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

6. FINANCE COSTS

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on:		
Bank loans and overdrafts	**110,467**	161,208
Other loans wholly repayable within five years	**–**	612
Loan from TCL Corporation	**3,219**	8,489
Loan from T.C.L. Industries	**790**	2,751
Loans from an associate	**12,728**	8,615
Subscription monies received	**25,389**	–
Finance costs (excluding finance costs on convertible bonds)	**152,593**	181,675
Finance costs on convertible bonds:		
Interest on liability component of convertible bonds (note 34)	**72,246**	68,456
Transaction costs related to the derivative component of convertible bonds	**–**	19,482
	72,246	87,938
Total	**224,839**	269,613

Notes to Financial Statements

31 December 2008

7. LOSS BEFORE TAX

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

	Group	
	2008 HK$'000	2007 HK$'000
Cost of inventories sold	**21,648,590**	17,713,329
Depreciation (note 14)	**252,646**	245,746
Research and development costs	**231,491**	245,542
Less: Government grants released*	**(75,775)**	(106,496)
Net research and development costs	**155,716**	139,046
Amortisation of other intangible assets (note 17)	**6,597**	4,183
Minimum lease payments under operating leases in respect of land and buildings	**109,721**	98,698
Amortisation of prepaid land lease payments (note 15)	**2,434**	2,842
Auditors' remuneration	**19,622**	17,704
Employee benefit expense (including directors' remuneration – note 8):		
Wages and salaries	**1,289,959**	1,109,918
Defined contribution expense	**105,499**	79,752
Defined benefit expense (note 36)	**7,316**	7,151
Equity-settled share option expense (note 38)	**25,887**	19,743
	1,428,661	1,216,564
Loss/(gain) on disposal of items of property, plant and equipment and associated prepaid land lease payments, net**	**39,146**	(18,672)
Impairment of items of property, plant and equipment**	**1,680**	7,851
Impairment of other intangible assets**	**19,958**	36,640
Impairment of trade receivables**	**1,556**	20,787
Foreign exchange differences, net	**110,272**	(87,812)
Net rental income	**(6,773)**	(5,095)
Bank interest income	**(13,760)**	(19,759)
Restructuring costs**	**–**	33,450
Product warranty provision (note 32):		
Additional provision	**212,677**	381,634
Reversals of unutilised provision	**(65,702)**	(72,868)
	146,975	308,766
Write-down/(reversal of write-down) of inventories to net realisable value	**31,529**	(24,036)
Excess over the cost of a business combination (note 39(a))***	**–**	(981)

7. LOSS BEFORE TAX (continued)

Notes:

* 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 loss on disposal of items of property, plant and equipment and associated prepaid land lease payments, net, the impairment of items of property, plant and equipment, the impairment of other intangible assets, the impairment of trade receivables and restructuring costs are included in "Other operating expenses" on the face of the consolidated income statement.

*** The excess over the cost of a business combination is included in "Other revenue and gains" on the face of the consolidated income statement.

8. 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	
	2008	2007
	HK$'000	HK$'000
Fees	**1,545**	900
Other emoluments:		
Salaries, allowances and benefits in kind	**10,444**	4,477
Discretionary performance related bonuses	**3,742**	3,937
Equity-settled share option expense	**3,861**	2,478
Pension scheme contributions	**412**	165
	18,459	11,057
	20,004	11,957

Notes to Financial Statements

31 December 2008

8. DIRECTORS' REMUNERATION (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

(a) Independent non-executive directors

	2008			2007		
	Fees HK$'000	**Equity-settled share option expense HK$'000**	**Total HK$'000**	Fees HK$'000	Equity-settled share option expense HK$'000	Total HK$'000
Mr. TANG Guliang	**225**	**5**	**230**	225	10	235
Mr. Robert Maarten WESTERHOF	**150**	**5**	**155**	150	–	150
Ms. WU Shihong	**225**	**5**	**230**	112	–	112
Mr. WANG Bing	**–**	**–**	**–**	112	10	122
	600	**15**	**615**	599	20	619

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

8. 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$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008						
Executive directors:						
Mr. LI Dongsheng	**120**	**1,215**	**–**	**2,059**	**30**	**3,424**
Mr. LEONG Yue Wing	**120**	**7,784**	**3,632**	**325**	**359**	**12,220**
Mr. SHI Wanwen	**120**	**–**	**–**	**1,022**	**–**	**1,142**
Mr. WANG Kangping	**120**	**–**	**–**	**15**	**–**	**135**
Mr. YUAN Bing	**120**	**1,055**	**110**	**262**	**23**	**1,570**
Ms. LU Zhongli	**120**	**390**	**–**	**158**	**–**	**668**
	720	**10,444**	**3,742**	**3,841**	**412**	**19,159**
Non-executive director:						
Mr. Albert Thomas DA ROSA, Junior	**225**	**–**	**–**	**5**	**–**	**230**
	945	**10,444**	**3,742**	**3,846**	**412**	**19,389**
2007						
Executive directors:						
Mr. LI Dongsheng	–	1,397	2,060	1,396	35	4,888
Mr. LEONG Yue Wing	–	1,953	847	–	90	2,890
Mr. SHI Wanwen	–	659	1,030	692	40	2,421
Mr. WANG Kangping	–	–	–	49	–	49
Mr. YUAN Bing	–	78	–	135	–	213
Ms. LU Zhongli	–	390	–	176	–	566
	–	4,477	3,937	2,448	165	11,027
Non-executive directors:						
Mr. Albert Thomas DA ROSA, Junior	225	–	–	10	–	235
Mr. Alastair Kenneth Ruskin CAMPBELL	38	–	–	–	–	38
Mr. Didier TRUTT	38	–	–	–	–	38
	301	4,477	3,937	2,458	165	11,338

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

Notes to Financial Statements

31 December 2008

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include two (2007: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: four) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,946**	13,456
Discretionary performance related bonuses	**2,510**	2,451
Equity-settled share option expense	**724**	–
Pension scheme contributions	**463**	2,427
	10,643	18,334

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

	Number of employees	
	2008	2007
HK$3,000,001 to HK$3,500,000	**2**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	1
More than HK$4,500,001	**–**	2
	3	4

10. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower of Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to assessable profits arising in Hong Kong for the whole year ended 31 December 2008. 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.

	2008 **HK$'000**	2007 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**16,653**	14,909
Overprovision in prior years	**(13,452)**	–
Current – Elsewhere		
Charge for the year	**106,404**	60,790
Underprovision/(overprovision) in prior years	**6,600**	(20,577)
Deferred (note 35)	**2,840**	(3,206)
Total tax charge for the year	**119,045**	51,916

Notes to Financial Statements

31 December 2008

10. TAX (continued)

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

	2008 **HK$'000**	2007 HK$'000
Loss before tax	**(132,416)**	(201,263)
Tax at the statutory/applicable tax rates of different countries/jurisdictions	**68,210**	(61,693)
Lower tax rates for specific provinces or enacted by local authority	**(86,480)**	(139,899)
Effect on opening deferred tax of decrease in rates	**(25)**	–
Adjustments in respect of current tax of previous periods	**(6,851)**	(20,577)
Profits and losses attributable to jointly-controlled entities and associates	**762**	92
Income not subject to tax	**(31,716)**	(65,976)
Expenses not deductible for tax	**146,591**	135,916
Tax losses not recognised	**26,957**	233,192
Tax losses utilised from previous periods	**–**	(28,624)
Others	**1,597**	(515)
Tax charge at the Group's effective rate	**119,045**	51,916

The share of tax attributable to jointly-controlled entities and associates amounting to HK$434,000 of tax credit (2007: Expense of HK$4,000) and tax charge of HK$539,000 (2007: HK$635,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" 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 enjoy income tax exemptions and reductions which are subject to income taxes at tax rates ranging from 15% to 25%.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of HK$419,582,000 (2007: profit of HK$23,884,000) which has been dealt with in the financial statements of the Company (note 38).

12. DIVIDENDS

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

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

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

	2008	2007
	HK$'000	HK$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(268,245)**	(262,016)
Add: Interest on convertible bonds	**72,246**	68,456
Transaction costs related to the derivative component of convertible bonds	**–**	19,482
Loss on early redemption of convertible bonds	**610,883**	–
Less: Fair value gain on the derivative component of convertible bonds	**(374,514)**	(241,417)
Profit/(loss) for the purpose of diluted loss per share calculation	**40,370**	(415,495)

Notes to Financial Statements

31 December 2008

13. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	2008	2007 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation*	**742,134,870**	510,819,798
Effect of dilution – weighted average number of ordinary shares:		
Deemed conversion of all convertible bonds		188,943,706
Weighted average number of ordinary shares used in diluted loss per share calculation		699,763,504

* The weighted average number of ordinary shares in 2008 and 2007 for the purposes of calculating the basic and diluted loss per share has been retrospectively adjusted for the ten-to-one share consolidation which took place on 23 January 2009 (note 45).

A diluted loss per share amount for the year ended 31 December 2008 has not been disclosed, as both the share options and the convertible bonds outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

For the year ended 31 December 2007, the share options outstanding had an anti-dilutive effect on the basic loss per share and was therefore, ignored in the calculation of diluted loss per share.

14. 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 2008							
At 1 January 2008:							
Cost	1,171,232	90,408	1,318,908	381,006	61,456	20,559	3,043,569
Accumulated depreciation and impairment	(235,826)	(50,170)	(773,745)	(267,418)	(36,865)	(12,472)	(1,376,496)
Net carrying amount	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
At 1 January 2008, net of accumulated depreciation and impairment	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
Additions	4,327	16,458	89,271	44,309	4,135	21,825	180,325
Disposals	(22,366)	(6,926)	(23,431)	(49,383)	(1,587)	(1,101)	(104,794)
Depreciation provided during the year	(55,816)	(27,335)	(77,718)	(81,620)	(10,157)	–	(252,646)
Impairment	–	–	(1,671)	(9)	–	–	(1,680)
Transfers	2,726	1,713	876	5,178	4,672	(15,165)	–
Transfer to non-current assets classified as held for sale (note 29)	(182,900)	–	(1,791)	(1,424)	(734)	–	(186,849)
Exchange realignment	59,228	1,160	22,823	4,493	1,302	351	89,357
At 31 December 2008, net of accumulated depreciation and impairment	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786
At 31 December 2008:							
Cost	969,415	91,726	1,260,870	334,437	58,372	26,469	2,741,289
Accumulated depreciation and impairment	(228,810)	(66,418)	(707,348)	(299,305)	(36,150)	(12,472)	(1,350,503)
Net carrying amount	740,605	25,308	553,522	35,132	22,222	13,997	1,390,786

Notes to Financial Statements

31 December 2008

14. 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 2007							
At 1 January 2007:							
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
At 1 January 2007, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
Additions	27,455	9,279	22,465	27,686	5,422	35,721	128,028
Disposals	(252,693)	(13,698)	(26,582)	(16,032)	(1,306)	(9,266)	(319,577)
Acquisition of a subsidiary (note 39(a))	–	–	146	33	377	–	556
Deconsolidation of subsidiaries (note 39(b))	–	(1)	(23)	(14)	–	–	(38)
Depreciation provided during the year	(47,040)	(23,099)	(109,532)	(58,720)	(7,355)	–	(245,746)
Impairment	–	–	(5,454)	(2,397)	–	–	(7,851)
Transfers	–	35	28,094	32,051	–	(60,180)	–
Exchange realignment	70,758	3,677	28,894	12,694	1,477	410	117,910
At 31 December 2007, net of accumulated depreciation and impairment	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073
At 31 December 2007:							
Cost	1,171,232	90,408	1,318,908	381,006	61,456	20,559	3,043,569
Accumulated depreciation and impairment	(235,826)	(50,170)	(773,745)	(267,418)	(36,865)	(12,472)	(1,376,496)
Net carrying amount	935,406	40,238	545,163	113,588	24,591	8,087	1,667,073

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2008 HK$'000	2007 HK$'000
Freehold	**321,194**	337,595
Short term leases	**88,311**	88,480
Medium term leases	**331,100**	509,331
	740,605	935,406

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**77,331**	88,581
Additions	**–**	11,908
Disposals	**(10,069)**	(25,997)
Amortised during the year	**(2,434)**	(2,842)
Transfer to non-current assets classified as held for sale (note 29)	**(18,679)**	–
Exchange realignment	**4,748**	5,681
Carrying amount at 31 December	**50,897**	77,331
Current portion included in other receivables (note 27)	**(920)**	(1,792)
Non-current portion	**49,977**	75,539

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

	2008 HK$'000	2007 HK$'000
Short term leases	**8,286**	16,126
Medium term leases	**42,611**	61,205
	50,897	77,331

Notes to Financial Statements

31 December 2008

16. GOODWILL

	Group	
	2008	2007
	HK$'000	HK$'000
Cost and carrying amount at 1 January 2008 and 31 December 2008	**119,638**	119,638

As further detailed in note 2.4 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 2008, 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 (2007: HK$1,819,000), representing its cost.

Impairment testing of goodwill

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

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 5.05% (2007: 7.7%) and the 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 rate used is before tax and reflects specific risks relating to the unit.

17. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2008:			
Cost at 1 January 2008, net of accumulated amortisation	**20,620**	**21,912**	**42,532**
Amortisation provided during the year	**(6,218)**	**(379)**	**(6,597)**
Impairment during the year	**–**	**(19,958)**	**(19,958)**
Exchange realignment	**891**	**120**	**1,011**
At 31 December 2008	**15,293**	**1,695**	**16,988**
At 31 December 2008:			
Cost	**31,046**	**59,095**	**90,141**
Accumulated amortisation and impairment	**(15,753)**	**(57,400)**	**(73,153)**
Net carrying amount	**15,293**	**1,695**	**16,988**

Notes to Financial Statements

31 December 2008

17. OTHER INTANGIBLE ASSETS (continued)

Group

	Patents and licences HK$'000	Trademarks HK$'000	Total HK$'000
31 December 2007:			
Cost at 1 January 2007, net of accumulated amortisation	10,132	57,652	67,784
Acquisition of a subsidiary (note 39(a))	13,966	1,032	14,998
Amortisation provided during the year	(3,948)	(235)	(4,183)
Impairment during the year	–	(36,640)	(36,640)
Exchange realignment	470	103	573
At 31 December 2007	20,620	21,912	42,532
At 31 December 2007:			
Cost	30,131	58,946	89,077
Accumulated amortisation and impairment	(9,511)	(37,034)	(46,545)
Net carrying amount	20,620	21,912	42,532

At 31 December 2007, included in the balance of trademarks were certain trademarks with an aggregate carrying value of HK$19,958,000, which had indefinite useful lives. These trademarks were treated as having indefinite useful lives because, in the opinion of the directors, there were no foreseeable limit to the periods over which these trademarks may be used to generate cash flows to the Group.

The recoverable amounts of these trademarks had 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 of the relevant trademarks was 9.3% (2007: 8.6%), and the cash flows beyond the five-year period were extrapolated using a steady growth rate. The projected cash flows were determined by estimated future revenue based on management expectations for market development. An impairment loss of HK$19,958,000 (2007: HK$36,640,000) in respect of the Group's trademarks was recognised during the year because the Group had lost certain major licensees and had no alternative business plan for the use of the relevant trademarks.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**3,385,297**	3,385,297
Due from subsidiaries	**2,053,340**	2,154,019
Due to subsidiaries	**(252,024)**	(218,064)
Capital contribution in respect of employee share-based compensation	**38,236**	36,869
	5,224,849	5,358,121
Impairment	**(2,206,501)**	(2,206,501)
	3,018,348	3,151,620
Less: Portion of amounts due from subsidiaries classified as current assets	**(1,851,691)**	(1,986,424)
	1,166,657	1,165,196

The balances with subsidiaries are unsecured and interest-free, and have no fixed terms of repayment, except for the balances due from TTE Corporation and its subsidiaries totalling HK$1,851,691,000 (2007: HK$1,986,424,000) which are unsecured and repayable on demand, and of which HK$1,503,053,000 as at 31 December 2007 bore interest at 1.05% above inter-bank offer rates per annum.

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

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		Principal activities
			2008	2007	
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

Notes to Financial Statements

31 December 2008

18. 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 2008	% of equity attributable to the Company 2007	Principal activities
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
TCL (Vietnam) Corporation Limited	Vietnam	VND37,135,000,000	**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**	100	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
TCL Belgium S.A.# (formerly known as TTE Belgium S.A.)	Belgium	EUR61,500	**100**	100	Investment holding
TCL International Electronics (BVI) Limited#	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

18. 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 2008	2007	Principal activities
TTE (North America) Holdings Limited#	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
TCL India Holdings Pvt. Limited	India	INR267,837,480	**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

Notes to Financial Statements

31 December 2008

18. 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 2008	% of equity attributable to the Company 2007	Principal activities
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	**100**	100	Trading of audio-visual products and components
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	RMB76,000,000	**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
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

18. 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		Principal activities
			2008	2007	
TCL Go Video	Cayman Islands/ USA	US$0.1	**100**	100	Intellectual property holding
TCL Overseas Marketing (Macao Commercial Offshore) Limited	Macao	MOP100,000	**100**	100	Trading of audio-visual products and components
TCL Operations Polska S.P. ZO.O.	Poland	PLN126,716,000	**100**	100	Manufacture of audio-visual products

@ 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 Group had charged all its rights, interests, benefits and title in and to the shares of TCL Information Technology Industrial (Group) Company Limited, TCL International Electronics (BVI) Limited, TTE Corporation, TCL Holdings (BVI) Limited, TCL Overseas Holdings Limited, TTE (North America) Holdings Limited, TTE Technology Inc. and TCL Belgium S.A. to the purchaser of the convertible bonds. The charges on those shares were released on 5 February 2009 upon the early redemption of the convertible bonds by the Company and the completion of the required procedures for the issuance of the deed of release (note 34).

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.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2008 HK$'000	2007 HK$'000
Share of net assets	**116,048**	115,571

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 24 and 30 to the financial statements, respectively.

Notes to Financial Statements

31 December 2008

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities, both 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.	Paid up capital of USD16,550,000	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:

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**116,677**	127,014
Non-current assets	**15,576**	16,677
Current liabilities	**(16,205)**	(28,120)
Net assets	**116,048**	115,571
Share of the jointly-controlled entities' results:		
Turnover	**393,727**	420,734
Other revenue	**100,704**	7,658
Total revenue	**494,431**	428,392
Total expenses	**(499,724)**	(432,313)
Tax	**434**	(4)
Loss after tax	**(4,859)**	(3,925)

20. INTERESTS IN ASSOCIATES

	Group 2008 HK$'000	Group 2007 HK$'000
Share of net assets	**85,834**	78,595

Particulars of the associates are 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. ("TCL Finance")	RMB500,000,000	PRC	14	Provision of financial services
Guangdong Yijiatong Technical Development of Digital Home Co., Ltd. ("Guangdong Yijiatong")	RMB10,000,000	PRC	20	Provision of technical services

The Group's shareholdings in TCL Finance and Guangdong Yijiatong are held through indirectly wholly-owned subsidiaries 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 and Guangdong Yijiatong have been accounted for using the equity method in these financial statements, and the financial year end of the above associates is coterminous with that of the Group.

Notes to Financial Statements

31 December 2008

20. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2008 **HK$'000**	2007 HK$'000
Assets	**1,745,684**	1,363,264
Liabilities	**1,137,607**	806,485
Revenues	**37,878**	25,758
Profit	**15,848**	12,157

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2008 **HK$'000**	2007 HK$'000
Unlisted equity investments, at cost	**2,690**	2,690
Provision for impairment	**(1,682)**	(1,682)
	1,008	1,008

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) these investments 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.

22. PREPAID ROYALTY

	Group	
	2008 **HK$'000**	2007 HK$'000
Total at 31 December	**162,099**	298,490
Less: Portion classified as current assets (note 27)	**(79,771)**	(109,255)
Non-current portion	**82,328**	189,235

23. INVENTORIES

	Group 2008 HK$'000	Group 2007 HK$'000
Raw materials	**800,629**	830,668
Work in progress	**251,757**	238,413
Finished goods	**2,009,182**	2,160,281
	3,061,568	3,229,362

24. TRADE RECEIVABLES

	Note	Group 2008 HK$'000	Group 2007 HK$'000
Due from third parties		**2,261,341**	2,400,614
Impairment		**(200,819)**	(317,774)
		2,060,522	2,082,840
Due from related parties:			
Companies controlled by TCL Corporation	26	**36,075**	25,822
Jointly-controlled entities	26	**14,709**	15,219
		50,784	41,041
Total		**2,111,306**	2,123,881

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 pursuant to the related agreements, the trade receivables of certain major customers were factored to the relevant banks (note 25).

Notes to Financial Statements

31 December 2008

24. TRADE RECEIVABLES (continued)

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.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**1,944,217**	2,052,989
91 to 180 days	**64,263**	41,570
181 to 365 days	**53,383**	15,744
Over 365 days	**49,443**	13,578
	2,111,306	2,123,881

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**317,774**	411,842
Impairment losses recognised	**1,556**	20,787
Amount written off as uncollectible	**(94,114)**	(135,153)
Exchange realignment	**(24,397)**	20,298
	200,819	317,774

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

24. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**1,501,483**	1,467,528
Less than 90 days past due	**505,880**	599,577
90 – 180 days past due	**53,316**	28,179
Over 180 days past due	**50,627**	28,597
	2,111,306	2,123,881

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. FACTORED TRADE RECEIVABLES AND BANK ADVANCES AS CONSIDERATION FOR FACTORED TRADE RECEIVABLES

At 31 December 2008, the Group's trade receivables of HK$1,835,241,000 (2007: HK$610,306,000) (the "Factored Receivables") were factored to certain banks 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.

Accordingly, the advances from the relevant banks of HK$1,665,749,000 (2007: HK$610,306,000) received by the Group as consideration for the Factored Receivables were recognised as liabilities in the consolidated balance sheet.

The entire balance of the Factored Receivables is aged within 90 days. None of the Factored Receivables is either past due or impaired and the Factored Receivables are related to customers with no recent history of default.

Notes to Financial Statements

31 December 2008

26. DUE FROM/TO TCL CORPORATION/COMPANIES CONTROLLED BY TCL CORPORATION/ T.C.L. INDUSTRIES/JOINTLY-CONTROLLED ENTITIES

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for an amount of HK$4,694,000 (2007: HK$145,591,000) due to TCL Corporation which bears interest at 5.40% per annum, being the loan interest rate offered by the Export-Import Bank of China (2007: 5.49% per annum, being the loan interest rate offered by the Export-Import Bank of China), and an amount of HK$24,920,000 (2007: Nil) due to T.C.L. Industries which bears interest at 3.08% per annum (2007: Nil).

27. OTHER RECEIVABLES

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments and deposits		**168,820**	199,576	**2,956**	2,503
Other receivables		**422,907**	473,031	**2,981**	444
Prepaid land lease payments	15	**920**	1,792	**–**	–
Prepaid royalty	22	**79,771**	109,255	**–**	–
Due from companies controlled by TCL Corporation	26	**2,695**	2,682	**20**	7
		675,113	786,336	**5,957**	2,954

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

28. CASH AND BANK BALANCES

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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the Group's cash and bank balances are deposits of HK$558,040,000 (2007: HK$108,388,323) placed with TCL Finance, a financial institution approved by the People's Bank of China. The interest rate for these deposits was 0.36% (2007: 0.72%) per annum, being the savings 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 43 to the financial statements.

29. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 7 January 2009, the Group entered into a framework agreement (the "Disposal Agreement") with Tianjin Vantone New-Innovation Industrial Resource Investment Co. Ltd., an associate of TCL Corporation, to dispose of its entire interests in TCL Digital Science and Technology (Wuxi) Company Limited ("TCL Wuxi"), a 70%-owned subsidiary of the Group, for an aggregate consideration of RMB159,000,000 (equivalent to HK$180,211,000).

As at 31 December 2008, TCL Wuxi owned a parcel of land with several buildings in Wuxi of the PRC with an aggregate carrying value of HK$205,528,000 (the "Property"). The Disposal Agreement is expected to be completed in mid-2009 upon the completion of certain regulatory approval procedures.

As the Group has committed to the disposal plan before 31 December 2008, the Property was classified as non-current assets held for sale and included as current assets on the consolidated balance sheet as at 31 December 2008. Further details of the Disposal Agreement are set out in the Company's announcement dated 31 December 2008.

30. TRADE PAYABLES

		Group	
		2008	2007
	Note	**HK$'000**	HK$'000
Due to third parties		**4,006,184**	3,732,873
Due to related parties:			
Companies controlled by TCL Corporation	26	**206,370**	278,672
Jointly-controlled entities	26	**171,809**	125,204
		378,179	403,876
		4,384,363	4,136,749

Notes to Financial Statements

31 December 2008

30. TRADE PAYABLES (continued)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Current to 90 days	**4,180,605**	3,970,131
91 to 180 days	**111,857**	91,154
181 to 365 days	**38,991**	48,477
Over 365 days	**52,910**	26,987
	4,384,363	4,136,749

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

31. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other payables	(a)	**702,007**	724,003	**457**	1,611
Accruals		**240,168**	258,867	**8,040**	5,732
Receipts in advance		**426,931**	442,786	**–**	–
Due to T.C.L. Industries	(b)	**30,102**	58,245	**19,141**	37,122
Due to companies controlled by TCL Corporation	26	**–**	–	**2,031**	1,089
		1,399,208	1,483,901	**29,669**	45,554

Notes:

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

(b) The amount due to T.C.L. Industries is unsecured, interest-free and repayable on demand, except for a balance of HK$34,920,900 as at 31 December 2007 which bears interest at 3.08% per annum, being the six-month LIBOR on the inception date of the advances.

32. PROVISIONS

Group

	Warranties
	HK$'000
At 1 January 2008	349,914
Arising during the year	212,677
Utilised during the year	(373,472)
Reversal of unutilised amounts	(65,702)
Exchange realignment	4,602
At 31 December 2008	128,019

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.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	Contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – unsecured	**4.9 to 5.9**	**2009**	**113,572**	5.6 to 9.0	2008	226,300
Trust receipt loans – unsecured	**LIBOR+0.7**	**2009**	**125,628**	LIBOR+0.7	2008	76,919
Loans from TCL Finance	**5.1 to 7.1 or HIBOR+5.0**	**2009**	**248,980**	–	–	–
			488,180			303,219
Non-current						
Loans from TCL Finance			**–**	HIBOR+2.0 or 6.41	2009	131,041
			488,180			434,260

Notes to Financial Statements

31 December 2008

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group	
	2008	2007
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable within one year or on demand	**239,200**	303,219
Loans from TCL Finance repayable:		
Within one year	**248,980**	–
In the second year	**–**	131,041
	248,980	131,041
	488,180	434,260

Notes:

(a) As at 31 December 2008, the carrying amounts of the Group's bank and other borrowings approximated to their fair values.

(b) TCL Corporation has guaranteed certain of the Group's bank loans up to HK$113,572,000 (2007: HK$296,979,000) as at the balance sheet date.

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

	Group	
	2008	2007
	HK$'000	HK$'000
United States dollars	**125,627**	255,993

33. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The carrying amounts and the fair values of the Group's and the Company's non-current borrowings are as follows:

	Group			
	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans from TCL Finance	–	131,041	–	130,520
Liability component of convertible bonds (note 34)	–	506,698	–	1,248,889
	–	637,739	–	1,379,409

	Company			
	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Liability component of convertible bonds (note 34)	–	506,698	–	1,248,889

At 31 December 2007, the fair value of the liability portion of the convertible bonds is estimated using an equivalent market interest rate for similar convertible bonds. The fair value of the loans from TCL Finance has been calculated by discounting the expected future cash flows at prevailing interest rates.

Notes to Financial Statements

31 December 2008

34. CONVERTIBLE BONDS

On 18 May 2007, the Company entered into a purchase agreement (the "Purchase Agreement") with Deutsche Bank AG, London (the "Purchaser"), in relation to the issue of secured convertible bonds due in 2012 (the "Bonds") with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). The Bonds were issued and completion of the Purchase Agreement took place on 12 July 2007.

Principal terms of the Bonds are as follows:

(a) Bondholders may convert at any time from 30 trading days after the closing date up to the closing of business on the maturity date at the initial conversion price of HK$0.40. As set out in the Company's announcement dated 16 August 2007, the conversion price had been adjusted from the initial conversion price of HK$0.40 per share to HK$0.65 per share with effect from 16 August 2007 pursuant to the terms and conditions of the Bonds;

(b) On or at any time after the 2nd anniversary date of the closing date and prior to the maturity date, the Company may redeem the Bonds in whole at the principal together with 37.5% of redemption interest and the 4.5% coupon interest (the "Early Redemption Amount") provided the closing price for each of any 20 trading days falling within a period of 30 consecutive trading days is at least 130% of the conversion price in effect on such trading day, or at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled;

(c) Bondholders shall have the right to require the Company to redeem all or some of their Bonds at the Early Redemption Amount in the event that the closing price for each of any 20 trading days falling within a period of 30 consecutive trading days is at least 30% below the conversion price in effect on such trading day;

(d) Unless previously redeemed, converted or purchased and cancelled, each Bond shall be redeemed at 137.50% of its principal amount on the fifth anniversary of the issue date;

(e) The Bonds bear interest at the rate of 4.5% per annum (the "coupon rate") on the principal amount outstanding. The interest will be payable by the Company quarterly in arrears; and

(f) The Bonds will be redeemed on maturity at a value equal to the aggregate of (1) its principal amount outstanding and (2) the interest accrued.

34. CONVERTIBLE BONDS (continued)

The proceeds from the issue of the Bonds on 12 July 2007 of US$140 million (equivalent to approximately HK$1,095 million) were split into the liability and the derivative components. On issuance of the Bonds, the fair value of the derivative component, i.e., the Conversion Option, is determined using an option pricing model and this amount is carried as a derivative component of the Bonds until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component of the Bonds, net of transaction costs, and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The fair value of the derivative component is remeasured at each balance sheet date and any gains or losses arising from changes in fair value are recognised in the income statement.

The Bonds that have been split into the derivative and the liability components are analysed as follows:

	Liability component HK$'000	**Derivative component** HK$'000	**Total** HK$'000
Proceeds from the issuance of convertible bonds	477,604	617,742	1,095,346
Less: Transaction costs allocated to the liability component	(15,079)	–	(15,079)
As at the issuance date on 12 July 2007	462,525	617,742	1,080,267
Fair value loss on the derivative component of convertible bonds	–	(241,417)	(241,417)
Interest expense (note 6)	68,456	–	68,456
Interest paid	(23,030)	–	(23,030)
Foreign exchange difference	(1,253)	(1,811)	(3,064)
As at 31 December 2007 and 1 January 2008	506,698	374,514	881,212
Fair value gain on the derivative component of convertible bonds	–	(374,514)	(374,514)
Loss on early redemption of convertible bonds	610,883	–	610,883
Interest expenses (note 6)	72,246	–	72,246
Interest paid	(22,122)	–	(22,122)
Foreign exchange difference	244	–	244
Redemption during the year	(1,167,949)	–	(1,167,949)
As at 31 December 2008	–	–	–

During the year, the Company early redeemed the Bonds in full by cash upon the occurrence of an early redemption event and at the requests of the bondholders.

Notes to Financial Statements

31 December 2008

35. DEFERRED TAX

Deferred tax liabilities

Group

	Notes	Depreciation allowance in excess of related depreciation HK$'000
At 1 January 2007		21,908
Deconsolidation of subsidiaries	39(b)	(764)
Deferred tax credited to the income statement during the year	10	(7,549)
Exchange realignment		177
Gross deferred tax liabilities at 31 December 2007 and 1 January 2008		13,772
Deferred tax credited to the income statement during the year	10	(2,111)
Exchange realignment		(89)
Gross deferred tax liabilities at 31 December 2008		11,572

Deferred tax assets

Group

	Note	Elimination of unrealised profits arising from intra-group transactions HK$'000	Accruals and other provisions HK$'000	Losses available for offsetting against future taxable profits HK$'000	Total HK$'000
At 1 January 2007		9,300	8,499	2,879	20,678
Deferred tax credited/(charged) to the income statement during the year	10	1,604	(5,461)	(486)	(4,343)
Exchange realignment		–	320	197	517
Gross deferred tax assets at 31 December 2007 and 1 January 2008		10,904	3,358	2,590	16,852
Deferred tax credited/(charged) to the income statement during the year	10	3,096	(2,882)	515	729
Exchange realignment		–	(50)	(318)	(368)
Gross deferred tax assets at 31 December 2008		14,000	426	2,787	17,213

35. DEFERRED TAX (continued)

The Group has tax losses of HK$1,702,325,000 (2007: HK$1,559,222,000) 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries and a jointly-controlled entity established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and a jointly-controlled entity established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries and a jointly-controlled entity will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and a jointly-controlled entity in the PRC for which deferred tax liabilities have not been recognised totalled approximately HK$484,026,000 at 31 December 2008 (2007: Nil).

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

Notes to Financial Statements

31 December 2008

36. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The Group has defined benefit 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.

	2008 HK$'000	2007 HK$'000
Net benefit expense		
Current service cost	**6,300**	5,642
Interest cost on benefit obligation	**849**	1,326
Net cumulative actuarial loss recognised in the income statement	**167**	183
Net benefit expense	**7,316**	7,151
Benefit liabilities		
Benefit obligation	**17,729**	15,564
Unrecognised net actuarial losses	**5,632**	1,311
Benefit liabilities	**23,361**	16,875
Movements in the benefit liabilities during the year are as follows:		
At 1 January	**16,875**	18,171
Benefit expense (note 7)	**7,316**	7,151
Contributions	**(362)**	(9,024)
Exchange realignment	**(468)**	577
At 31 December	**23,361**	16,875

36. PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS (continued)

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

	2008	2007
	%	%
Discount rate	**3.3 – 5.25**	4.5 – 5.25
Future salary increases	**4.0 – 5.0**	4.0 – 5.0
Future pension increases	**–**	1.0
Healthcare cost increase rate	**5.0 – 9.5**	5.0 – 9.5

37. SHARE CAPITAL

Shares

	Company	
	2008	2007
	HK$'000	HK$'000
Authorised:		
22,000,000,000 (2007: 22,000,000,000) shares of HK$0.10 each	**2,200,000**	2,200,000
Issued and fully paid:		
10,218,266,345 (2007: 5,837,715,590) shares of HK$0.10 each	**1,021,827**	583,772

During the year, the movements in share capital were as follows:

(a) On 30 May 2008, the Company entered into share subscription agreements (the "Subscription Agreements") with T.C.L. Industries, certain senior management of the Company and individual investors (the "Subscribers") for the subscription of new shares of the Company with an aggregate amount of approximately HK$1,206 million.

Completion of the Subscription Agreements took place on 21 August 2008 and 4,386,432,755 new ordinary shares of the Company were issued to the Subscribers at HK$0.275 each.

Notes to Financial Statements

31 December 2008

37. SHARE CAPITAL (continued)

Shares (continued)

(b) During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate cost paid HK$'000	Transaction costs HK$'000	Total consideration HK$'000
January 2008	1,372,000	0.455	0.390	614	5	619
March 2008	1,102,000	0.340	0.335	370	5	375
October 2008	1,476,000	0.088	0.078	118	–	118
November 2008	1,932,000	0.110	0.100	201	6	207
	5,882,000			1,303	16	1,319

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the nominal value of these shares.

A summary of the movements in the Company's issued share capital and share premium account during the year are as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2007		3,902,951,727	390,295	1,560,215	1,950,510
Rights issue		1,951,475,863	195,148	585,443	780,591
Shares repurchased		(16,712,000)	(1,671)	(5,810)	(7,481)
		5,837,715,590	583,772	2,139,848	2,723,620
Share issuance expenses		–	–	(7,521)	(7,521)
At 31 December 2007 and 1 January 2008		5,837,715,590	583,772	2,132,327	2,716,099
Issue of shares	(a)	4,386,432,755	438,643	767,626	1,206,269
Shares repurchased	(b)	(5,882,000)	(588)	(731)	(1,319)
		10,218,266,345	1,021,827	2,899,222	3,921,049
Share issuance expenses		–	–	(13,628)	(13,628)
At 31 December 2008		10,218,266,345	1,021,827	2,885,594	3,907,421

37. SHARE CAPITAL (continued)

Share options

On 11 November 2006, the share option scheme adopted by the Company on 12 May 2003 (the "Old Scheme") expired and a new share option scheme (the "New Scheme") was adopted by the shareholders of the Company, subject to adjustments, on 15 February 2007. 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 ten 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.

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 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 ten 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 highest of (i) the closing price of the Company's shares on the Stock Exchange on the date of 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 offer; and (iii) the nominal value of the Company's shares.

Notes to Financial Statements

31 December 2008

37. SHARE CAPITAL (continued)

Share options (continued)

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

	2008		2007	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.832	370,540	1.400	135,420
Adjustment arising from the rights issue	–	–	1.167	27,014
Granted during the year	0.245	196,389	0.630	242,624
Lapsed during the year	0.982	(31,506)	0.985	(34,518)
Expired during the year	1.167	(117,804)	–	–
At 31 December	0.450	417,619	0.832	370,540

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2008

Number of options '000	Exercise price* HK$ per share	Exercise period
222,844	0.63	Note 2
194,775	0.245	Note 3
417,619		

37. SHARE CAPITAL (continued)

Share options (continued)

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
139,638	1.167	Note 1
230,902	0.63	Note 2
370,540		

* The exercise price of the share options is subject to adjustment in case of rights on bonus issues, or other similar changes in the Company's share capital.

Note 1: 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.

Note 2: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 3 July 2012.

Note 3: One-third of such share options is exercisable after the expiry of 12 months from the date of grant, a further one-third is exercisable after the expiry of 24 months from the date of grant, and the remaining one-third is exercisable after the expiry of 36 months from the date of grant, up to 24 August 2013.

The fair value of the share options granted during the year was HK$18,709,000 (approximately HK$0.095 each) (2007: HK$64,764,000, approximately HK$0.267 each). The fair value of equity-settled share options granted in current 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 2008.

	2008	2007
Dividend yield (%)	**Nil**	Nil
Expected volatility (%)	**50.00 per annum**	50.00 per annum
Risk-free interest rate (%)	**2.75 per annum**	4.52 per annum
Expected life of options (year)	**5.00**	5.00

Notes to Financial Statements

31 December 2008

37. SHARE CAPITAL (continued)

Share options (continued)

The expected life of the options is based on the historical data over the past five 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.

Restricted Share Award Scheme

On 6 February 2008 (the "Adoption Date"), the board of directors of the Company (the "Board") approved the Restricted Share Award Scheme (the "Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees (the "Selected Employees") in accordance with the provisions of the Award Scheme and the maximum number of Awarded Shares awarded to a Selected Employee under the Award Scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

Pursuant to the Award Scheme, the Board shall select the Selected Employees and determine the number of shares to be awarded. The Board shall pay BOCI-Prudential Trustee Limited (the "Trustee"), the trustee engaged by the Company for the purpose of administrating the Award Scheme, the purchase price and the related expenses from the Company's resources for the shares to be purchased by the Trustee. The Trustee shall purchase from the market such a number of shares awarded as specified by the Board and shall hold such shares until they are vested in accordance with the rules of the Award Scheme.

Upon adoption of the Award Scheme, the Board also resolved to provide a total amount not exceeding HK$50 million to the Trustee for the purchase of the Awarded Shares to be awarded to certain current employees of the Group as a recognition of their contribution to the Group and an incentive to retain them for the continual operation and development of the Group.

Moreover, a proposal will be put to the shareholders allowing the Board to implement the Award Scheme to its full extent (i.e., to provide further funds to the Trustee in accordance with the terms of the Award Scheme for purchase of the Awarded Shares up to 10% of the issued share capital of the Company as at the Adoption Date).

The Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of five years and shall be automatically renewed for one successive five-year term unless sooner terminated as determined by the Board provided that such termination shall not affect any subsisting rights of any Selected Employee under the scheme.

During the year, the Trustee purchased 35,816,000 Awarded Shares at a total cost (including related transaction costs) of HK$7,808,000.

At the date of approval of these financial statements, no Awarded Shares were awarded to any Selected Employees under the Award Scheme.

38. RESERVES

Group

	Attributable to equity holders of the parent									
	Share premium account	Share option reserve[Δ]	Capital reserve[^]	Reserve funds*	Exchange fluctuation reserve	Accumulated losses	Shares held for the Award Scheme	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	–	1,210,871	88,876	1,299,747
Issue of shares	585,443	–	–	–	–	–	–	585,443	–	585,443
Share issuance expenses	(7,521)	–	–	–	–	–	–	(7,521)	–	(7,521)
Shares repurchased	(5,810)	–	–	–	–	–	–	(5,810)	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	–	–	–	19,743	–	19,743
Share options lapsed during the year	–	(7,859)	–	–	–	7,859	–	–	–	–
Exchange realignment	–	–	–	–	34,574	–	–	34,574	6,805	41,379
Profit/(loss) for the year	–	–	–	–	–	(262,016)	–	(262,016)	8,837	(253,179)
Transfer from retained profits	–	–	–	36,102	–	(36,102)	–	–	–	–
At 31 December 2007 and 1 January 2008	2,132,327	57,278	59,099	704,364	185,709	(1,563,493)	–	1,575,284	104,518	1,679,802
Issue of shares	767,626	–	–	–	–	–	–	767,626	–	767,626
Share issuance expenses	(13,628)	–	–	–	–	–	–	(13,628)	–	(13,628)
Shares repurchased	(731)	–	–	–	–	–	–	(731)	–	(731)
Equity-settled share option arrangements	–	25,887	–	–	–	–	–	25,887	–	25,887
Share options lapsed/expired during the year	–	(42,143)	–	–	–	42,143	–	–	–	–
Purchase of shares for the Award Scheme	–	–	–	–	–	–	(7,808)	(7,808)	–	(7,808)
Exchange realignment	–	–	–	–	188,210	–	–	188,210	6,716	194,926
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(3,334)	(3,334)
Profit/(loss) for the year	–	–	–	–	–	(268,245)	–	(268,245)	16,784	(251,461)
Transfer from retained profits	–	–	–	79,978	–	(79,978)	–	–	–	–
At 31 December 2008	2,885,594	41,022	59,099	784,342	373,919	(1,869,573)	(7,808)	2,266,595	124,684	2,391,279

Notes to Financial Statements

31 December 2008

38. RESERVES (continued)

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 2.4 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.

* Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Company's subsidiaries and a jointly-controlled entity in the PRC has been transferred to the reserve funds which are restricted as to use. In addition, profit of a jointly-controlled entity which has been capitalised has also been 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 16 to the financial statements.

Company

	Share premium account HK$'000	Share option reserveΔ HK$'000	Capital reserve# HK$'000	Accumulated losses HK$'000	Shares held for the Award Scheme HK$'000	Total HK$'000
At 1 January 2007	1,560,215	45,394	738,936	(1,321,664)	–	1,022,881
Issue of shares	585,443	–	–	–	–	585,443
Share issuance expenses	(7,521)	–	–	–	–	(7,521)
Shares repurchased	(5,810)	–	–	–	–	(5,810)
Equity-settled share option arrangements	–	19,743	–	–	–	19,743
Share options lapsed during the year	–	(7,859)	–	7,859	–	–
Profit for the year	–	–	–	23,884	–	23,884
At 31 December 2007 and 1 January 2008	2,132,327	57,278	738,936	(1,289,921)	–	1,638,620
Issue of shares	767,626	–	–	–	–	767,626
Share issuance expenses	(13,628)	–	–	–	–	(13,628)
Shares repurchased	(731)	–	–	–	–	(731)
Equity-settled share option arrangements	–	25,887	–	–	–	25,887
Share options lapsed/expired during the year	–	(42,143)	–	30,985	–	(11,158)
Purchase of shares for the Award Scheme	–	–	–	–	(7,808)	(7,808)
Loss for the year	–	–	–	(419,582)	–	(419,582)
At 31 December 2008	2,885,594	41,022	738,936	(1,678,518)	(7,808)	1,979,226

38. RESERVES (continued)

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 2.4 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.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

For the year ended 31 December 2007

On 27 September 2007, the Group acquired a 100% equity interest in Shenzhen Asic Microelectronics Limited ("Asic Microelectronics") owned by TCL Corporation and T.C.L. Industries at a total consideration of RMB25,000,000 (equivalent to HK$25,283,000). Asic Microelectronics principally engaged in the design and development of various integrated circuits and the provision of technical supports related to integrated circuits. This acquisition was completed on 30 September 2007 and the consideration was settled as to HK$20,026,000 in cash and the remaining amount of HK$5,257,000 has not been settled as at 31 December 2007.

Notes to Financial Statements

31 December 2008

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of a subsidiary (continued)

For the year ended 31 December 2007 (continued)

The fair values of the identifiable assets and liabilities of Asic Microelectronics as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** HK$'000	**Carrying amount** HK$'000
Net assets acquired:			
Property, plant and equipment	14	556	670
Other intangible assets	17	14,998	–
Inventories		5,576	5,576
Trade receivables		5,828	5,828
Other receivables		900	900
Trade payables		(1,151)	(1,151)
Other payables and accruals		(443)	(443)
		26,264	11,380
Excess over the cost of a business combination	7	(981)	
		25,283	
Satisfied by:			
Cash		20,026	
Due to T.C.L. Industries		5,257	
		25,283	

The results of the subsidiary acquired during the year had no significant impact on the Group's consolidated turnover or loss for the year ended 31 December 2007.

There would have been no significant differences to the Group's consolidated loss for the year had the acquisition taken place at the beginning of the year.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Deconsolidation of subsidiaries

For the year ended 31 December 2007

On 24 May 2007, TTE Europe SAS ("TTE Europe") filed a declaration of insolvency to the French court and the French court appointed the Liquidator to take over TTE Europe on 29 May 2007. Formal insolvency proceedings then commenced on 29 May 2007 and the judicial liquidator was then the sole person being responsible for winding-up TTE Europe and its subsidiaries (collectively the "EU Group") by liquidating its assets and making payment to its creditors. The financial statements of the EU Group were deconsolidated from the Group's consolidated financial statements since 29 May 2007 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 the EU Group since that date.

	Notes	2007 HK$'000
Net liabilities of the EU Group:		
Property, plant and equipment	14	38
Available-for-sale investments		376
Other receivables		59,844
Tax recoverable		241
Cash and bank balances		228,338
Trade payables		(110,425)
Tax payable		(41)
Other payables and accruals		(60,050)
Provisions		(118,907)
Deferred tax liabilities	35	(764)
		(1,350)
Gain on deconsolidation of subsidiaries		1,350
		–
Net outflow of cash and bank balances in respect of the deconsolidation of subsidiaries		(228,338)

Notes to Financial Statements

31 December 2008

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2008, the Group had total minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year of HK$386,000 (2007: HK$24,000).

(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 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**20,129**	60,015
In the second to fifth years, inclusive	**37,114**	45,017
After five years	**1,391**	5,836
	58,634	110,868

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for	**33,083**	1,083
Authorised, but not contracted for	**4,299**	1,761
	37,382	2,844

42. CONTINGENT LIABILITIES

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

	Group		Company	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**–**	–	**4,014,798**	2,655,170
Guarantees given to suppliers in connection with the payment of purchases by subsidiaries	**–**	–	**670,770**	388,951
Guarantees given in lieu of utility and rental deposits	**–**	1,425	**–**	–
	–	1,425	**4,685,568**	3,044,121

As at 31 December 2008, the guarantees given to banks in connection with banking facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK$1,336 million (2007: HK$468 million), and the guarantees given to suppliers in connection with the payments of purchases by subsidiaries were utilised to the extent of approximately HK$86 million (2007: HK$84 million).

(b) In December 2007, the Group received a summons to appear in a court hearing on claims (the "Claims") made by a group of former employees of TTE Europe against the Company, TTE Europe and TCL Belgium S.A., an indirect wholly-owned subsidiary of the Company, for breach of certain regulations of the French labor laws, nullity of the redundancy plan and unfair dismissal during the wind-down of TTE Europe in 2006 and claiming for a total compensation of approximately Euro 8.7 million (equivalent to approximately HK$94.9 million). During the latest hearing, the former employees had failed to disclose any document in support of their claims. The hearing was postponed until future notice and the case was removed from the list of current cases.

The directors, based on the advice from the Group's legal counsels, believe that the Group has a valid defence against the Claims and, accordingly, has not provided for any liability arising from the Claims.

Notes to Financial Statements

31 December 2008

43. 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	2008 HK$'000	2007 HK$'000
Jointly-controlled entities:			
Sales of raw materials	(i)	**785,913**	665,865
Sales of finished goods	(ii)	**57,793**	77,163
Purchases of finished goods	(iii)	**867,977**	712,017
TCL Corporation:			
Interest expense	(iv)	**3,219**	8,489
T.C.L. Industries:			
Interest expense	(v)	**790**	2,751
Interest on subscription monies received	(vi)	**19,157**	–
An associate:			
Interest income	(vii)	**937**	250
Interest expense	(viii)	**12,728**	8,615
Other financial services fee	(ix)	**351**	223
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	**2,137**	44
Sales of finished goods	(ii)	**5,001**	3,653
Purchases of raw materials	(iii)	**851,243**	1,096,897
Purchases of finished goods	(iii)	**52,663**	11,721
Subcontracting fee expense	(x)	**11,345**	11,810
Interest income	(xi)	**21**	217
Rental, maintenance fees and facilities usage fees	(xii)	**2,950**	2,503
Rental expense	(xiii)	**39,440**	9,630
Reimbursement of brand advertising costs	(xiv)	**78,891**	67,821
Transportation fee expense	(xv)	**45,097**	14,553
Calling service fee expense	(xvi)	**16,850**	14,511
Sales of mobile phones	(xvii)	**213,092**	25,081
Purchases of materials for manufacturing of mobile phones	(xviii)	**178,354**	40,142

43. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2008 HK$'000	2007 HK$'000
Thomson S.A. ("Thomson") Group*:			
Sales of finished goods	(ii)	–	376
Purchases of raw materials	(iii)	–	1,912
Shared service fee expense	(xix)	–	36,690
Trademark royalty fee	(xx)	–	2,675
After-sales and related services fee expense	(xix)	–	18,051
Subcontracting fee expense	(xxi)	–	317
Directors:			
Interest on subscription monies received	(vi)	**433**	–

* Thomson ceased to be a related party of the Group on 20 March 2007 and transactions with the Thomson Group after 20 March 2007 were not included as related party transactions.

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 prices 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 5.40% (2007: 5.49%) per annum, being the loan interest rate offered by the Export-Import 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 10% per annum.

(vii) The interest was charged at a rate of 0.36% (2007: 0.72%) per annum, being the savings rate offered by the People's Bank of China.

Notes to Financial Statements

31 December 2008

43. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes: (continued)

(viii) The interest on three loans was charged at a rate of 5.1% per annum (5% premium on the 3-month loan interest rate offered by the People's Bank of China), 7.1% per annum (15% premium on the 6-month loan interest rate offered by the People's Bank of China) and 3-month HIBOR on the inception date of the loans plus 5%, respectively (2007: 5% discount on the 6-month loan interest rate offered by the People's Bank of China, 6.41% per annum and 2% premium on the 3-month HIBOR on the inception date of the loans, respectively).

(ix) The other financial services fee was determined with reference to the rates of other similar services for comparable transactions.

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

(xi) The interest was charged at a rate of 0.36% (2007: 0.72%) per annum, being the saving rate offered by the People's Bank of China.

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

(xiii) Rental expense of HK$6,724,000 was charged at rates ranging from RMB52 to RMB70 per square metre. Rental expense of HK$32,717,000 constitutes a small discount to the rate offered to independent third parties of similar premises located at the same parcel of land. The management fee was determined with reference to the market rate of similar premises located at the districts nearby.

(xiv) The brand advertising costs represent advertising costs incurred by TCL Corporation 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.

(xv) The transportation fee was determined with reference to the rates of other similar services for comparable transactions.

(xvi) The calling service fee was calculated based on the actual cost structure in connection with the provision of the calling service.

(xvii) The sales of mobile phones were made based on the cost of materials plus a value added rate with reference to other similar services for comparable transactions.

43. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes: (continued)

(xviii) The purchases of materials for manufacturing of mobile phones were made at cost.

(xix) In 2007, the shared service fee, after-sales and related services fee and laboratory service fee were charged by Thomson Group at cost.

(xx) In 2007, 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.

(xxi) In 2007, 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.

(b) Other transactions with related parties:

On 5 December 2008, TCL King Electrical Appliances (Huizhou) Company Limited, an indirect subsidiary of the Company, entered into a transfer agreement with TCL Optoelectronics Technology (Huizhou) Co., Ltd, a wholly-owned subsidiary of TCL Corporation, to acquire the land use rights in Huizhou of the PRC for a consideration of RMB 21,569,000 (equivalent to HK$24,373,000) for the purpose of building a LCD television plant in future. The transaction was completed on 11 February 2009 upon the completion of the official transfer of the legal title. Further details of this transaction was set out in the Company's announcements dated 5 December 2008.

(c) Details of compensation of key management personnel of the Group are set out in notes 8 and 9 to the financial statements.

Except for the transactions with jointly-controlled entities included in note 43(a), all the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements

31 December 2008

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, 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 interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors 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 2.4 to the financial statements.

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 and the derivative component of convertible bonds.

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.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings and the derivative component of the convertible bonds). There is no material impact on other components of the Group's equity.

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**
		HK$'000
2008		
Hong Kong dollar	**(25)**	**(77)**
United States dollar	**(25)**	**(1,099)**
Renminbi	**(25)**	**(259)**
Hong Kong dollar	**25**	**77**
United States dollar	**25**	**1,099**
Renminbi	**25**	**259**
2007		
Hong Kong dollar	(25)	(124)
United States dollar	(25)	(404)
Renminbi	(25)	(404)
Thai Baht	(25)	(17)
Hong Kong dollar	25	124
United States dollar	25	404
Renminbi	25	404
Thai Baht	25	17

Notes to Financial Statements

31 December 2008

44. 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 currencies. In addition, certain bank loans and the bonds are denominated in currencies other than the functional currencies of the entities to which they relate. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incur, so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of currencies other than the functional currencies of the relevant operating units, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no material impact on other components of the Group's equity.

	Increase/ (decrease) in exchange rates	**Increase/ (decrease) in loss before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against United States dollar	**5**	**86,876**
If Hong Kong dollar weakens against Euro	**5**	**(3,267)**
If Hong Kong dollar strengthens against United States dollar	**(5)**	**(86,876)**
If Hong Kong dollar strengthens against Euro	**(5)**	**3,267**
2007		
If Hong Kong dollar weakens against United States dollar	5	51,045
If Hong Kong dollar weakens against Euro	5	(3,996)
If Hong Kong dollar strengthens against United States dollar	(5)	(51,045)
If Hong Kong dollar strengthens against Euro	(5)	3,996

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.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 24 and 27, respectively, to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

Notes to Financial Statements

31 December 2008

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2008			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Bank advances as consideration for factored trade receivables	**1,675,229**	**–**	**–**	**1,675,229**
Interest-bearing bank and other borrowings	**495,539**	**–**	**–**	**495,539**
Trade payables	**4,384,363**	**–**	**–**	**4,384,363**
Bills payable	**820,067**	**–**	**–**	**820,067**
Other payables (note 31)	**702,007**	**–**	**–**	**702,007**
Due to T.C.L. Industries	**120,816**	**–**	**–**	**120,816**
Due to TCL Corporation	**4,952**	**–**	**–**	**4,952**
	8,202,973	**–**	**–**	**8,202,973**

	2007			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Convertible bonds (note 34)	–	–	1,095,346	1,095,346
Bank advances as consideration for factored trade receivables	613,531	–	–	613,531
Interest-bearing bank and other borrowings	304,655	139,572	–	444,227
Trade payables	4,136,749	–	–	4,136,749
Bills payable	272,988	–	–	272,988
Other payables (note 31)	724,003	–	–	724,003
Due to T.C.L. Industries	59,322	–	–	59,322
Due to TCL Corporation	228,352	–	–	228,352
	6,339,600	139,572	1,095,346	7,574,518

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, is as follows: (continued)

Company

	2008			
	Within 1 year or on demand HK$'000	**More than 1 year but less than 2 years HK$'000**	**More than 2 years HK$'000**	**Total HK$'000**
Other payables (note 31)	**457**	**–**	**–**	**457**
Due to T.C.L. Industries (note 31)	**19,141**	**–**	**–**	**19,141**
Due to companies controlled by TCL Corporation (note 31)	**2,031**	**–**	**–**	**2,031**
	21,629	**–**	**–**	**21,629**

	2007			
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years HK$'000	Total HK$'000
Convertible bonds (note 34)	–	–	1,095,346	1,095,346
Other payables (note 31)	1,611	–	–	1,611
Due to T.C.L. Industries	38,199	–	–	38,199
Due to companies controlled by TCL Corporation (note 31)	1,089	–	–	1,089
	40,899	–	1,095,346	1,136,245

Notes to Financial Statements

31 December 2008

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the values of Company's own equity instruments underlie the fair values of derivatives. As at 31 December 2007, the Group was exposed to this risk through the conversion rights attached to the Bonds (note 34) issued by the Company.

As at 31 December 2007, the carrying value of the Conversion Option was and if the market price of the Company's own share at that date had been 5% lower, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$29,931.000 lower; and if the market price of the Company's own share at that date had been 5% higher, with all other variables held constant and before any impact on tax, the loss before tax for the year would have been HK$32,792,000 higher.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the two years ended 31 December 2008.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital. The Group's policy is to maintain the gearing ratio not exceeding 100%. Net debt is calculated as a total of bank advances as consideration for factored trade receivables, interest-bearing bank and other borrowings, interest-bearing amounts due to TCL Corporation, T.C.L. Industries and the Bonds, less cash and bank balances. Total capital refers to equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Bank advances as consideration for factored trade receivables (note 25)	**1,665,749**	610,306
Interest-bearing bank and other borrowings (note 33)	**488,180**	434,260
Liability component of convertible bonds	**–**	506,698
Derivative component of convertible bonds	**–**	374,514
Due to TCL Corporation (note 26)	**4,694**	145,591
Due to T.C.L. Industries (note 26)	**24,920**	–
Less: Cash and bank balances (note 28)	**(2,157,768)**	(1,095,341)
Net debt	**25,775**	976,028
Equity attributable to equity holders of the parent	**3,288,422**	2,159,056
Gearing ratio	**0.8%**	45.2%

45. POST BALANCE SHEET EVENT

Pursuant to an ordinary resolution passed at the extraordinary general meeting on 22 January 2009, 10 ordinary shares of HK$0.1 each of the issued and unissued share capital of the Company were consolidated into 1 ordinary share of HK$1 each. The authorised share capital of the Company remained at HK$2,200,000,000 but was divided into 2,200,000,000 shares of HK$1 each.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2009.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified/re-presented as appropriate, is set out below.

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
TURNOVER	**25,773,322**	21,294,104	29,186,823	32,499,945	23,641,036
PROFIT/(LOSS) BEFORE TAX	**(132,416)**	(201,263)	(2,411,311)	(578,574)	357,550
Tax	**(119,045)**	(51,916)	(96,523)	(107,311)	(125,075)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(251,461)**	(253,179)	(2,507,834)	(685,885)	232,475
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	–	7,362	(17,382)	55,469
PROFIT/(LOSS) FOR THE YEAR	**(251,461)**	(253,179)	(2,500,472)	(703,267)	287,944
Attributable to:					
Equity holders of the parent	**(268,245)**	(262,016)	(2,497,314)	(598,893)	308,985
Minority interests	**16,784**	8,837	(3,158)	(104,374)	(21,041)
	(251,461)	(253,179)	(2,500,472)	(703,267)	287,944
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**12,616,968**	10,779,873	12,397,004	18,151,136	16,902,901
Total liabilities	**(9,203,862)**	(8,516,299)	(10,706,962)	(14,052,144)	(12,549,943)
Minority interests	**(124,684)**	(104,518)	(88,876)	(108,476)	(1,422,082)
	3,288,422	2,159,056	1,601,166	3,990,516	2,930,876

13th Floor,
TCL Tower,
8 Tai Chung Road,
Tsuen Wan,
New Territories, Hong Kong
Tel: (852) 2437 7300
Fax: (852) 2417 7181

www.tclhk.com