THOMSON
Form 20-F/A
July 24, 2007

As filed with the Securities and Exchange Commission on July 24, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

Amendment No.1

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ____________ to ____________

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
date of event requiring this shell report

Commission File Number: 001-14974

THOMSON

(Exact name of Registrant as specified in its charter)

Not Applicable	Republic of France
(Translation of Registrant s name into English)	(Jurisdiction of incorporation or organization)

46, quai Alphonse Le Gallo

92100 Boulogne-Billancourt - France

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, nominal value €3.75 per share, and American Depositary Shares, each representing one share of Common Stock	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Common Stock, nominal value €3.75 per share: 273,871,296

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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EXPLANATORY NOTE

This Amendment No.1 on Form 20-F/A (Amendment) to Thomson s Annual Report on Form 20-F for the year ended December 31, 2006, which was originally filed with the U.S. Securities and Exchange Commission on May 11, 2007 (the Original Filing), is being filed to provide separate consolidated financial statements of TCL Multimedia Technology Holding Limited (TCL) audited in accordance with Hong Kong Financial Reporting Standards (HKFRS) and the standards of the Public Company Accounting Oversight Board (United States) as of and for the fiscal year ended December 31, 2006, including a reconciliation of net income and shareholders equity under HKFRS to that under United States generally accepted accounting principles (U.S. GAAP), and the audit report of Ernst & Young relating thereto as required pursuant to Rule 3-09 of Regulation S-X (Rule 3-09). This Amendment also includes comparative information on TCL as of and for the fiscal years ended December 31, 2005 and 2004. The comparative information on TCL as of and for the fiscal year ended December 31, 2005 is audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) as required pursuant to Rule 3-09. The comparative information on TCL as of and for the fiscal year ended December 31, 2004 is not required to be audited under Rule 3-09 and, consequently, has not been audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), and is not covered by the audit report of Ernst & Young. This Amendment accordingly amends Item 18: Financial Statements of the Original Filing.

The consolidated financial statements of TCL as of and for the fiscal years ended December 31, 2006, 2005 and 2004 have been prepared by TCL and its management. These financial statements and information have not been prepared by Thomson or its management and the recording of transactions therein is not part of Thomson s internal control over financial reporting.

In addition, this Amendment amends the exhibit list under Item 19 (Exhibits) of the Original Filing to reflect new certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as well as to include the consent of Ernst & Young in connection with the incorporation by reference of its auditors report relating to TCL s consolidated financial statements as of and for the fiscal year ended December 31, 2006 and 2005.

Other than as expressly set forth above, no changes have been made to these or any other Items of the Original Filing. This Amendment and the Original Filing continue to speak as of May 11, 2007, the date on which the Original Filing was made and, except as described above, this Amendment does not, and does not purport to, amend, update or restate the information in any other Item of the Original Filing, or reflect any events that have occurred after the date on which the Original Filing was made.

ITEM 18 - FINANCIAL STATEMENTS

The following consolidated financial statements of Thomson and related notes, together with the reports of the Independent Auditors, are filed as part of this Annual Report:

Reports of Independent Registered Public Accounting Firms on Consolidated Financial Statements	F-1
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The following consolidated financial statements of TCL as of and for the years ended December 31, 2006, 2005 and 2004 (unaudited),[1] together with the report of Ernst & Young in connection with the consolidated financial statements of TCL as of and for the year ended December 31, 2006 and 2005, are filed as part of this Amendment No.1 to this Annual Report:

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The comparative information on TCL as of and for the fiscal year ended December 31, 2004 is not required to be, and has not been, audited in accordance with the standards of the PCAOB (US), and is not covered by the audit report of Ernst & Young.

ITEM 19 – EXHIBITS

The following exhibits are filed as part of this Annual Report:

Exhibit 1: Bylaws of Thomson (Incorporated by reference to Exhibit 4.1 to the Company's Form S-8 filed on September 29, 2006)

Exhibit 8: Subsidiaries (Refer to Note 39 to our consolidated financial statements)

Exhibit 12.1: Chief Executive Officer Certification

Exhibit 12.2: Chief Financial Officer Certification

Exhibit 13.1: Chief Executive Officer Certification

Exhibit 13.2: Chief Financial Officer Certification

Exhibit 14.1: Consent of KPMG

Exhibit 14.2: Consent of Mazars & Guérard

Exhibit 14.3: Consent of Barbier Frinault & Autres, Ernst & Young

Exhibit 14.4: Consent of Ernst & Young in connection with the consolidated financial statements of TCL Multimedia Technology Holding Limited

Exhibit 99.1: Excerpts of Thomson s report on Form 6-K submitted to the SEC on April 26, 2007*

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* Previously filed with the Securities and Exchange Commission on May 11, 2007 and incorporated by reference herein.

Signature

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No.1 to this Annual Report on its behalf.

THOMSON

By: /s/ Frank E. Dangeard

Frank E. Dangeard

Chairman and Chief Executive Officer

Dated: July 24, 2007

Reports of Independent Registered Public Accounting Firms

The Board of Directors and Shareholders

THOMSON:

We have audited the accompanying consolidated balance sheet of THOMSON and subsidiaries (THOMSON) as of December 31, 2006 and the related consolidated statements of operations, cash flows, recognized income and expense, and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of THOMSON as of December 31, 2006 and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with International Financial Reporting Standards as adopted by the European Union.

International Financial Reporting Standards as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 40 to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of THOMSON s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 7, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

Paris La Défense,
May 7, 2007
KPMG Audit
A division of KPMG S.A.

Isabelle Allen Grégoire Menou

Courbevoie,
May 7, 2007
Mazars & Guérard
Mazars

Frédéric Allilaire

To the Board of Directors and Shareholders of THOMSON

We have audited the accompanying consolidated balance sheets of THOMSON and its subsidiaries (THOMSON) as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and changes in equity, for each of the years then ended. These financial statements are the responsibility of THOMSON s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of THOMSON s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THOMSON s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THOMSON as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the years then ended in conformity with International Financial Reporting Standards as adopted by the European Union.

We also have audited the adjustments to the 2005 and 2004 financial statements relating to the retroactive disclosure for discontinued operations, as described in Notes 5 and 41. In our opinion, such adjustments are appropriate and have been properly applied.

International Financial Reporting Standards as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 40 to the consolidated financial statements.

Courbevoie, March 24, 2006 except for the Note 40 for which the date is May 10, 2006, and Notes 5 and 41 for which the date is May 7, 2007.

Mazars & Guérard
Mazars

Frédéric Allilaire

To the Board of Directors and Shareholders of THOMSON

We have audited, before the effects of the adjustments to reflect retrospectively the modification of the scope of discontinued operations as of December 31, 2006 as described in Notes 5 and 41, the consolidated balance sheets of Thomson and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, cash flows and changes in equity, for each of the year then ended (the 2005 and 2004 financial statements before the effects of the adjustments described in Notes 5 and 41 are not presented herein). These financial statements are the responsibility of THOMSON s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of THOMSON s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THOMSON s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, and evaluating the overall financial presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, before the effects of the adjustments to reflect retrospectively the modification of the scope of discontinued operations as of December 31, 2006 as described in Notes 5 and 41, present fairly, in all material respects, the financial position of THOMSON as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the year then ended in conformity with International Financial Reporting Standards as adopted by the European Union.

International Financial Reporting Standards as adopted by the European Union vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 40 to the consolidated financial statements.

We were not engaged to audit, review, or apply any procedures to the adjustments to reflect retrospectively the modification of the scope of discontinued operations as of December 31, 2006 as described in Notes 5 and 41 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Mazars & Guérard.

Neuilly-sur-Seine, March 24, 2006, except for the Note 40 for which the date is May 10, 2006.

Barbier Frinault & Autres

Ernst & Young

Jérôme Guirauden

Report of Independent Registered Public Accounting Firms on Internal Control over Financial Reporting

The Board of Directors and Shareholders

THOMSON:

We have audited management s assessment, included in the accompanying management's annual report on internal control over financial reporting presented in Item 15, that THOMSON and its subsidiaries (THOMSON) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). THOMSON s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that THOMSON maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, THOMSON maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of THOMSON as of December 31, 2006 and the related consolidated statements of operations, cash flows, recognized income and expense, and changes in equity for the year then ended, and our report dated May 7, 2007, expressed an unqualified opinion on those consolidated financial statements.

Paris La Défense, May 7, 2007		Courbevoie, May 7, 2007
KPMG Audit		Mazars & Guérard
A division of KPMG S.A.		Mazars
Isabelle Allen	Grégoire Menou	Frédéric Allilaire

Consolidated Statements of Operations

		Year ended December 31,		
(in € millions)	**Note**	**2006**	**2005 (1)**	**2004 (1)**
Continuing operations				
Revenues		5,854	5,591	5,980
Cost of sales		(4,474)	(4,240)	(4,594)
Gross margin		**1,380**	**1,351**	**1,386**
Selling and administrative expenses	*(8)*	(674)	(638)	(653)
Other income (expense)	*(8)*	52	(96)	(69)
Research and development expenses	*(9)*	(279)	(227)	(201)
Profit from continuing operations before tax and net finance costs		**479**	**390**	**463**
Interest income	*(10)*	19	30	52
Interest expense	*(10)*	(108)	(108)	(54)
Other financial income (expense)	*(10)*	(111)	36	(26)
Finance costs net		**(200)**	**(42)**	**(28)**
Share of profit (loss) from associates	*(15)*	(86)	(82)	(20)
Income tax	*(11)*	-	(68)	(93)
Profit from continuing operations		**193**	**198**	**322**
Discontinued operations				
Profit (loss) from discontinued operations - net	*(12)*	(138)	(771)	(883)
Net income (loss)		**55**	**(573)**	**(561)**
Attributable to:				
- Equity Holders		55	(574)	(559)
- Minority interests		-	1	(2)

		Year ended December 31,		
(in euro, except number of shares)	**Note**	**2006**	**2005**	**2004**
Weighted average number of shares outstanding basic net of treasury stock (2)		261,188,858	266,539,917	273,646,869
EARNINGS PER SHARE FROM CONTINUING OPERATIONS	*(32)*			
- basic (3)		0.67	0.74	1.18
- diluted		0.63	0.42	1.11

EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS			
- basic	(0.53)	(2.89)	(3.23)
- diluted	(0.48)	(2.62)	(2.96)
TOTAL EARNINGS PER SHARE			
- basic [(3)]	0.14	(2.15)	(2.05)
- diluted	0.15	(2.20)	(1.85)

(1)

See Note 5 Bridge with financial statements released as of December 31, 2005 .

(2)

The decrease in the average weighed number of shares as of December 2005 is due to the treasury shares acquired in 2005.

(3)

After deduction of the dividends, net of tax, paid on the subordinated perpetual notes for 2006.

The notes on pages F-11 to F-125 are an integral part of these financial statements.

Consolidated Balance Sheets

(in € millions)	**Note**	**December 31, 2006**	**December 31, 2005**	**January 1, 2005 (1)**	**December 31, 2004**
ASSETS					
Non-current assets:					
Property, plant and equipment	*(13)*	813	886	1,051	1,051
Goodwill	*(14)*	1,714	1,756	1,186	1,178
Other intangible assets	*(14)*	1,071	1,150	924	924
Investments in associates	*(15)*	12	204	260	260
Investments and financial assets available-for-sale	*(17)*	266	341	139	113
Derivative financial instruments	*(24)*	7	1	11	-
Contract advances	*(18)*	129	173	179	179
Deferred tax assets	*(11)*	397	379	307	301
Other non-current assets	*(21)*	110	182	133	136
Total non-current assets		**4,519**	**5,072**	**4,190**	**4,142**
Current assets:					
Inventories	*(19)*	366	333	503	568
Trade accounts and notes receivable	*(20)*	1,018	1,315	1,232	1,180
Current accounts with associates and joint-ventures		97	115	143	143
Derivative financial instruments	*(24)*	8	9	115	-
Other current assets	*(21)*	535	644	483	616
Marketable securities		-	7	58	58
Cash and cash equivalents	*(22)*	1,311	996	1,845	1,848
Assets classified as held for sale	*(12)*	264	369	80	-
Total current assets		**3,599**	**3,788**	**4,459**	**4,413**
TOTAL ASSETS		**8,118**	**8,860**	**8,649**	**8,555**

(1)

Including the impacts of the first-time application related of IAS 32 and 39 on financial instruments and of IFRS 5 on non-current assets held for sale and discontinued operations.

Consolidated Balance Sheets

(in € millions)	**Note**	**December 31, 2006**	**December 31, 2005**	**January 1, 2005 (1)**	**December 31, 2004**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity:	*(23)*				
Common stock *(273,871,296 shares at December 31, 2006 with nominal value of €3.75 per share)*		1,027	1,025	1,025	1,025
Treasury shares		(225)	(239)	(55)	(55)
Additional paid in capital		1,686	1,771	1,751	1,751
Subordinated perpetual notes		500	500	-	-
Other reserves		64	43	89	(23)
Retained earnings		(886)	(980)	(323)	(125)
Cumulative Translation Adjustment		(54)	89	(98)	(98)
Shareholders equity		**2,112**	**2,209**	**2,389**	**2,475**
Minority interests		7	7	9	18
Total equity		**2,119**	**2,216**	**2,398**	**2,493**
Non-current liabilities:					
Borrowings	*(25)*	1,393	858	1,540	1,597
Retirement benefit obligations	*(27)*	505	877	760	785
Restructuring provisions	*(28)*	48	9	-	-
Derivative financial instruments	*(24)*	51	57	122	-
Other provisions	*(28)*	107	185	55	55
Deferred tax liabilities	*(11)*	143	162	43	37
Other non-current liabilities	*(30)*	71	103	129	129
Total non-current liabilities		**2,318**	**2,251**	**2,649**	**2,603**
Current liabilities:					
Borrowings	*(25)*	1,276	1,464	1,011	904
Derivative financial instruments	*(24)*	10	10	34	-
Retirement benefit obligations	*(27)*	67	62	65	65
Restructuring provisions	*(28)*	72	45	76	76
Other provisions	*(28)*	86	77	81	81
Trade accounts and notes payable		1,032	1,164	1,199	1,226
Accrued employee expenses		165	166	158	163

Income tax payable	*(11)*	57	47	60	60
Other current liabilities	*(30)*	671	750	746	800
Payables on acquisition of companies	*(31)*	13	138	84	84
Liabilities directly associated with assets classified as held for sale	*(12)*	232	470	88	-
Total current liabilities		**3,681**	**4,393**	**3,602**	**3,459**
TOTAL LIABILITIES		**5,999**	**6,644**	**6,251**	**6,062**
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		**8,118**	**8,860**	**8,649**	**8,555**

(1)

Including the impacts of first-time application related of IAS 32 and 39 on financial instruments and of IFRS 5 on non-current assets held for sale and discontinued operations.

Consolidated Statements of Cash Flows

(in € millions)		Year ended December 31,		
	Note	2006	2005	2004
Net income (loss)		**55**	**(573)**	**(561)**
(Loss) from discontinued operations		**(138)**	**(771)**	**(883)**
Profit from continuing operations		**193**	**198**	**322**
Summary adjustments to reconcile profit from continuing operations to cash generated from operations				
Depreciation and Amortization		454	443	398
Impairment of assets		6	18	49
Net changes in provisions		(113)	(16)	(39)
Profit/(loss) on asset sales		(11)	1	(50)
Interest Income and Expense	*(10)*	89	78	2
Other (including tax)		95	70	95
Changes in working capital and other assets and liabilities	*(34)*	(1)	(33)	(82)
Cash generated from continuing operations		**712**	**759**	**695**
Interest paid		(92)	(64)	(35)
Accrued interest premium paid on convertible bond	*(25)*	(59)	-	-
Interest received		14	14	10
Income tax paid		(42)	(67)	(119)
Net operating cash generated from continuing activities	*(34)*	**533**	**642**	**551**
Net operating cash used in discontinued operations	*(34)*	(118)	(342)	(121)
NET CASH FROM OPERATING ACTIVITIES (I)		**415**	**300**	**430**
Acquisition of subsidiaries, associates and investments, net of cash acquired	*(34)*	(255)	(455)	(579)
Acquisition of Videocon Industries shares	*(34)*	-	(240)	-
Net proceeds from sale of investments		125	2	42
Proceeds from sale (purchase) of marketable securities		8	52	(58)
Purchase of property, plant and equipment (PPE)		(166)	(192)	(219)
Proceeds from sale of PPE		73	10	13
Purchase of intangible assets including capitalization of development costs		(121)	(102)	(67)
Loans (granted to)/reimbursed by third parties		17	47	17
Net investing cash generated from (used in) continuing activities		**(319)**	**(878)**	**(851)**
Net investing cash generated from (used in) discontinued operations	*(34)*	(147)	(18)	(138)

NET CASH USED IN INVESTING ACTIVITIES (II)		**(466)**	**(896)**	**(989)**
Proceeds from issuance of deeply subordinated notes	*(23)*	-	492	-
Proceeds from issuance of convertible bonds	*(25)*	-	-	403
Purchase of treasury shares and others	*(34)*	9	(283)	(58)
Repayment of convertible bonds		(611)	(588)	-
Proceeds from borrowings		1,121	592	272
Repayment of borrowings		(27)	(423)	(540)
Dividends and distributions paid to Group s shareholders	*(23)*	(107)	(77)	(71)
Dividends and distributions paid to minority interests		(2)	(2)	(3)
Net financing cash generated from continuing activities		**383**	**(289)**	**3**
Net financing cash (used)/provided in discontinued operations	*(34)*	(10)	16	2
NET CASH (USED)/PROVIDED BY FINANCING ACTIVITIES (III)		**373**	**(273)**	**5**
Net (decrease)/increase in cash and cash equivalents (I+II+III)		**322**	**(869)**	**(554)**
Cash and cash equivalents at beginning of period		**996**	**1,848**	**2,383**
Exchange gains/(losses) on cash and cash equivalents		(7)	17	19
Cash and cash equivalents at end of period		**1,311**	**996**	**1,848**

Consolidated Statements of Recognised Income and Expense

		Period ended December 31,		
(in € millions)	**Note**	**2006**	**2005**	**2004**
Net income (loss) for the year		**55**	**(573)**	**(561)**
Recognition of actuarial gains (losses) in equity	*(27)*	69	(58)	(23)
Fair value gains (losses), gross of tax:				
- on available-for-sale financial assets		(2)	(24)	-
- on cash flow hedges		(6)	(11)	-
Currency translation adjustments		(144)	190	(97)
Total income and expense recognized directly in equity (*)		**(83)**	**97**	**(120)**
TOTAL RECOGNIZED INCOME AND EXPENSE FOR THE YEAR		**(28)**	**(476)**	**(681)**
Attributable to:				
- Equity holders of the parent		*(27)*	*(480)*	*(680)*
- Minority interests		*(1)*	*4*	*(1)*

(*)

No tax effect due to the overall tax loss position of the Group.

Consolidated Statements of Changes in Equity

									Minority interests	Total equity
	Attributable to equity holders of the Group									
(in € millions)	**Share capital**	**Treasury shares**	**Additional paid in capital**	**Bonds issued**	**Other reserves**	**Retained earnings**	**Cumulative translation adjustments**	**Total Group equity**		
Balance at January 1, 2004	**1,052**	**(210)**	**1,938**	**-**	**-**	**500**	**-**	**3,280**	**9**	**3,289**
Variations for the year ended December 31, 2004										
Total income and expense recognized in equity (*)	-	-	-	-	(23)	-	(98)	(121)	1	(120)
Net income (loss) for the period	-	-	-	-	-	(559)	-	(559)	(2)	(561)
TOTAL RECOGNIZED INCOME AND EXPENSE FOR 2004	**-**	**-**	**-**	**-**	**(23)**	**(559)**	**(98)**	**(680)**	**(1)**	**(681)**
Dividends	-	-	-	-	-	(71)	-	(71)	(5)	(76)
Warrants [1]	-	-	12	-	-	-	-	12	-	12
Treasury shares:										
- purchased (4,157,010 shares)	-	(74)	-	-	-	-	-	(74)	-	(74)
- granted to employees (141,488 shares)	-	2	(2)	-	-	-	-	-	-	-
- cancelled (7,305,476 shares) [2]	(27)	227	(200)	-	-	-	-	-	-	-
Stock options granted [3]	-	-	-	-	-	5	-	5	-	5
Share based payment to employees	-	-	3	-	-	-	-	3	-	3
Change in perimeter	-	-	-	-	-	-	-	-	15	15
Balance at December 31, 2004	**1,025**	**(55)**	**1,751**	**-**	**(23)**	**(125)**	**(98)**	**2,475**	**18**	**2,493**
Adoption of IAS 32 and 39	**-**	**-**	**-**	**-**	**112**	**(198)**	-	**(86)**	**(9)**	**(95)**

Balance at January 1, 2005	**1,025**	**(55)**	**1,751**	**-**	**89**	**(323)**	**(98)**	**2,389**	**9**	**2,398**
Variations 2005										
Total income and expense recognized in equity [(*)]	-	-	-	-	(93)	-	187	94	3	97
Net income (loss) 2005	-	-	-	-	-	(574)	-	(574)	1	(573)
TOTAL RECOGNIZED INCOME AND EXPENSE FOR 2005	**-**	**-**	**-**	**-**	**(93)**	**(574)**	**187**	**(480)**	**4**	**(476)**
Dividends	-	-	-	-	-	(77)	-	(77)	(2)	(79)
Issuance of deeply subordinated bonds net of transaction costs (See Note 23 (c))	-	-	-	500	-	(8)	-	492	-	492
Treasury shares:										
- purchased (15,626,318 shares)	-	(292)	-	-	-	-	-	(292)	-	(292)
- sold (2,352,544 shares)	-	49	-	-	-	-	-	49	-	49
Fair value treasury shares to deliver (5)	-	59	-	-	-	-	-	59	-	59
Carry back on treasury shares	-	-	-	-	10	-	-	10	-	10
Change in perimeter(6)	-	-	-	-	-	-	-	-	9	9
Put on shares to minority interests (6)	-	-	-	-	-	-	-	-	(13)	(13)
Other(4)	-	-	9	-	-	-	-	9	-	9
Cancellation of written put (7)	-	-	-	-	37	-	-	37	-	37
Unrecognized gain on put sold(7)	-	-	-	-	-	2	-	2	-	2
Share based payment to employees (See Note 29)	-	-	11	-	-	-	-	11	-	11
Balance at December 31, 2005	1,025	(239)	1,771	500	43	(980)	89	2,209	7	2,216

(in € millions)	Share capital	Treasury shares	Additional paid in capital	Bonds issued	Other reserves	Retained earnings	Cumulative translation adjustments	Total Group equity	Minority interests	Total equity
	Attributable to equity holders of the Group									
Balance at January 1, 2006	**1,025**	**(239)**	**1,771**	**500**	**43**	**(980)**	**89**	**2,209**	**7**	**2,216**
Variation for the year ended December 31, 2006										
Total income and expense recognized in equity(*)	-	-	-	-	*61*	-	*(143)*	*(82)*	*(1)*	*(83)*
Net income (loss) for the period	-	-	-	-	-	*55*	-	*55*	-	*55*
TOTAL RECOGNIZED INCOME AND EXPENSE FOR 2006	**-**	**-**	**-**	**-**	**61**	**55**	**(143)**	**(27)**	**(1)**	**(28)**
Distribution of additional paid in capital (see Note 23)	-	-	(78)	-	-	-	-	(78)	(2)	(80)
Conversion of BASA (563,264 shares) (see Note 23)	2	-	7	-	-	-	-	9	-	9
Dividend paid on subordinated perpetual notes (see Note 23)	-	-	-	-	-	(28)	-	(28)	-	(28)
Convertible bonds	-	-	-	-	(67)	67	-	-	-	-
Treasury shares sold	-	14	-	-	-	-	-	14	-	14
Put on shares to minority interests and change in perimeter	-	-	-	-	-	-	-	-	3	3
Share based	-	-	(14)	-	14	-	-	-	-	-

payment reclassification										
Share based payment to employees (see Note 29)	-	-	-	-	13	-	-	13	-	13
Balance at December 31, 2006	**1,027**	**(225)**	**1,686**	**500**	**64**	**(886)**	**(54)**	**2,112**	**7**	**2,119**

(*)

Refer to details in the Statement of recognized income and expense on page F-6.

(1)

On September 15, 2004, the Extraordinary Shareholders Meeting approved a subscription plan for warrants (Bon d'Acquisition ou de Souscription d'Actions "BASA") for individual shareholders who met certain conditions. As of December 31, 2004, a number of 12,471,369 BASA at €1 each were subscribed. Each BASA gives the right to subscribe one Thomson share at €16.

(2)

On October 19, 2004, a total of 7,305,476 treasury shares were cancelled through a share capital reduction.

(3)

Fair value as of July 31, 2004 of a common stock call option granted to TCL Corporation in connection with the TV Combination Agreement. On first time adoption of IAS 32 and 39, this commitment was reclassified under financial debt long term and was revalued by €3 million, thereby recognizing a long-term debt as of January 1, 2005 of €8 million.

(4)

Valued added tax reimbursement on costs incurred on capital increase in 2000.

(5)

This comprises 3,623,828 shares to deliver following Inventel and Cirpack acquisitions (see Note 23).

(6)

The variations mainly relate to the acquisition of VCF Thématiques in 2005 that increase the minority interests together with a reclassification of the minority interests in borrowings as there is a put on these minority interests.

(7)

As the put has not been exercised, the debt and the gain on the premium have been cancelled through equity.

Notes to the Consolidated Financial Statements

1 General information

Thomson provides a wide range of video (and enabling) technologies, systems, finished products and services to customers and professionals in the Media & Entertainment industries. Since January 1, 2005, Thomson s activities have been organized into three principal segments: Technology, Systems, and Services. Two further activities regroup on the one hand Corporate Functions and on the other hand the residual activity of Displays & CE Partnerships segment which is non-core.

In these financial statements, the terms Thomson group , the Group and Thomson mean Thomson SA together with it consolidated subsidiaries. Thomson SA refers to the Thomson group parent company.

The financial statements have been closed by the Board of Directors of Thomson SA on February 13, 2007.

According to French law, the financial statements will be considered as definitive when approved by the entity s shareholders during the Ordinary Shareholders Meeting, convened for May 9, 2007 on first notice and on May 15, 2007 on second notice.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations effective as of December 31, 2006 and approved by the European Union as of February 13, 2007.

The accounting policies applied by the Group are consistent with those followed in the preparation of the Group s annual financial statements for the year ended December 31, 2005, except for the following standards, amendments and interpretations effective for annual periods beginning on or after January 1, 2006.

Standards, amendments and interpretations effective as from January 1, 2006

(a) Standards, amendments and interpretations effective in 2006 and applied as from January 1, 2006

.

IFRIC 4, Determining whether an arrangement contains a lease.

This interpretation provides guidance on determining whether arrangements that do not take the legal form of a lease (e.g. certain take-or-pay contracts or outsourcing contracts) should, nonetheless, be accounted for in accordance with IAS 17, Leases. The standard specifies that an arrangement is considered a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset. Within the Services segment, our Broadcast Network Services activity assembles programming and manages the play-out of video content for broadcasters through play-out facilities owned by the Group. The assets used in these facilities are sometimes used for and dedicated to a single

customer and therefore may fall within the scope of IFRIC 4. The analysis of these contracts show that the major risks and rewards related to these assets are retained by the Group and therefore these contracts should be considered as operating lease agreements without any changes to the accounting treatment previously applied by the Group.

(b) Standards, amendments and interpretations effective in 2006 but with no impact on Thomson s financial statements

.

IAS 21 (Amendment), Net investment in foreign operation;

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IAS 39 (Amendment), The fair value option;

.

IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts;

.

IFRS 6, Exploration for and Evaluation of Mineral Resources;

.

IFRIC 5, Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds.

(c) Standards, amendments and interpretations effective in 2006 but early adopted by Thomson

.

IAS 19 (Amendment), Actuarial gains and losses, Group Plans and disclosure.

Revised IAS 19 was adopted early as from January 1, 2004. Net cumulative actuarial gains and losses of the period are immediately recognized in the provision for post employment obligation with a corresponding debit or credit to equity shown in the Statement of Recognized Income and Expense.

.

IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions.

Revised IAS 39 was adopted as from January 1, 2005, date of application of IAS 32 and 39.

.

IFRIC 6, Liabilities arising from participating in a specific market Waste Electrical and Electronic Equipment (WEEE).

This interpretation establishes the recognition date for liabilities arising from the European Directive relating to the disposal of WEEE. The Group took the directive into account as soon as to the directive came into effect at the end of 2005. A provision was recognized as of December 31, 2005 and updated as of December 2006. This provision amounts to less than €1 million as of December 31, 2006.

Standards, amendments and interpretations adopted only as from January 1, 2005

The policies set out below have been consistently applied to all the periods presented except for the three following standards applied by Thomson from January 1, 2005:

.

IAS 32 and 39, Presentation, recognition and measurement of financial instruments.

The application of these standards prospectively from January 1, 2005 (exemption available under IFRS 1) does not allow a full consistent comparison between 2004 and 2005 income statements and balance sheets;

.

IFRS 5, Non-current assets held for sale and discontinued operations.

Only the 2004 statement of operations has been restated to present on a single line item the net 2004 result of the discontinued activities.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by Thomson

New standard or interpretation	Effective Date	Main provisions
IAS 1 (Amendment), Presentation of Financial Statements Capital Disclosures	Annual periods beginning on or after January 1, 2007	Introduces new requirements for disclosures about an entity s capital.
IFRS 7, Financial instruments: disclosures	Annual periods beginning on or after January 1, 2007	Requires disclosures that enable users of the financial statements to evaluate the significance of the Group s financial instruments and the nature and extent of the risks arising from those financial instruments.
IFRIC 7, Applying the Restatement Approach under IAS 29	Annual periods beginning on or after March 1, 2006	Clarifies the requirements under IAS 29 relating to two issues: (a) how comparative amounts in financial statements should be restated when an entity identifies the existence of hyperinflation in the economy of the currency in which its financial statements are measured (its functional currency); and (b) how deferred tax items in the opening balance sheet should be restated.
IFRIC 8, Scope of IFRS 2	Annual periods beginning on or after May 1, 2006	Clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.
IFRIC 9, Reassessment of Embedded Derivative	Annual periods beginning on or after June 1, 2006	Addresses whether IAS 39 requires such an assessment to be made only when the entity first becomes a party to the hybrid contract, or whether the assessment should be reconsidered throughout the life of the contract.

The impacts of current IFRS and IFRIC projects are not anticipated in these financial statements and can not be reasonably estimated at December 31, 2006.

Accounting options selected by the Group for the preparation of the opening IFRS balance sheet at the transition date (January 1, 2004)

IFRS 1, First-time Adoption of IFRS sets out the rules to be followed by first-time adopters of IFRS when preparing their first IFRS financial statements. The Group has opted to apply the following options and exemptions provided by IFRS 1:

(a) Business combinations

The Group has opted not to restate past business combinations that occurred before January 1, 2004 in accordance with IFRS 3.

(b) Cumulative translation differences

The Group elected to recognize cumulative translation differences of the foreign subsidiaries into opening retained earnings as of January 1, 2004, after having accounted for the IFRS adjustments in the opening shareholders equity. All cumulative translation differences for all foreign operations have therefore been deemed to be zero at the IFRS transition date. The gain or loss on a subsequent disposal of any foreign operation will exclude translation differences that arose before the IFRS transition date but will include later translation differences.

(c) Cumulative actuarial gains and losses on pensions and other post-employment benefit plans

Cumulative unrecognized actuarial gains and losses on pensions and other post-employment benefit plans as of January 1, 2004 have been recognized in equity in the opening balance sheet. The application of this option has no impact on the method elected by the Group for the future accounting of the actuarial gains and losses on employee benefits.

(d) Measurement of certain tangible and intangible assets at fair value

Under certain circumstances, the Group elected to apply IFRS 1 option, which enables the Group to measure several tangible assets at their fair value at the IFRS transition date. This fair value corresponds to the deemed cost under IFRS at the IFRS transition date. This method has been used only to value the TV assets which were transferred to TCL-Thomson Electronics (TTE) in July 2004.

(e) Stock options and other share-based payments

The Group elected to apply IFRS 2 to all equity instruments granted after November 7, 2002 and for which the rights had not vested as of December 31, 2004.

Functional and presentation currency

These consolidated financial statements are presented in euro, which is the functional currency of Thomson SA. All financial information presented in euro has been rounded to the nearest million, unless otherwise stated.

Basis of measurement

The IFRS financial information has been prepared using the historical cost convention with some exceptions regarding various assets and liabilities, for which specific provisions recommended by the IFRS have been retained: available-for-sale financial assets at fair value, and financial assets at fair value through profit and loss.

Use of estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period of the consolidated financial statements.

The Board regularly reviews its valuations and estimates based on its past experience and various other factors, considered reasonable and relevant for the determination of the fair estimates of the assets and liabilities carrying value and of the revenues and expenses. The actual results could significantly differ from these estimates depending on different conditions and assumptions.

Positions taken by the Group when no specific requirement exists in the IFRS

These positions are linked to issues that are being analyzed by the IFRIC or the IASB.

In the absence of standards or interpretations applicable to the transactions described below, Group management has used its judgment to define and apply the most appropriate accounting methods. The Group s judgment-based interpretations are as follows:

(a) Acquisitions of minority interests

The acquisitions of minority interests are not currently covered by IFRS. The accounting treatment of acquisitions of minority interests is included within the proposed amendments to IFRS 3 Business combinations published in June 2005 by the IASB. For the time being, in the absence of definitive specific rules, the Group applies the previous French GAAP method. In the event the Group acquires additional interests in a subsidiary, the difference between the purchase price and the consolidated carrying amount of these acquired minority interests is recorded as goodwill in the Group s consolidated financial statements.

(b) Commitments to purchase minority interests (put options)

Pursuant to IAS 27 and IAS 32, commitments to purchase minority interests and put options granted to minority interests are recognized as a financial debt for its fair value and as a reduction in minority interests in equity. Where the fair value of the commitment exceeds the carrying amount of the minority interest, the Group (in the absence of clear guidance from the IASB or IFRIC) records this difference as goodwill, following the principle of the acquisition of minority interests described above.

Pursuant to this initial accounting, any change in the fair value of the commitment is recorded as an adjustment of the amount initially recorded as goodwill.

Scope and consolidation method

(a) Subsidiaries

All the entities that are controlled by the Group (including special purpose entities) i.e. in which the Group has the power to govern the financial and operating policies in order to obtain benefits from the activities, are subsidiaries of the Group and are consolidated. Control is presumed to exist when the Group directly or indirectly owns more than half of the voting rights of an entity (the voting rights taken into account are the actual and potential voting rights which are immediately exercisable or convertible) and when no other shareholder holds a significant right allowing veto or the blocking of ordinary financial and operating decisions made by the Group. Consolidation is also applied to special purpose entities that are controlled, whatever their legal forms are, even where the Group holds no shares in their capital.

(b) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies decisions of the investee without having either control or joint control over those policies. Investments in associates are accounted for under the equity method. The goodwill arising on these entities is included in the carrying value of the investment.

(c) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Investments in joint-ventures are consolidated under the pro rata method: the assets, liabilities, revenues and costs are consolidated in proportion to the Group s investment.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The acquiree s identifiable assets, liabilities and contingent liabilities that meet the IFRS recognition criteria are recorded at their fair value at the acquisition date, except for the assets classified as held-for-sale by the Group that are recognized at fair value less costs to sell.

The cost of an acquisition is measured:

·

at 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.

The excess of the cost of acquisition over the fair value of the Group s share of the identifiable net assets is recorded as goodwill.

The adjustments of assets and liabilities fair values related to new acquisitions, initially recorded using provisional values (due to external appraisal work being currently carried out or to further analyses to be performed), are accounted for as retroactive adjustments to goodwill, should they occur within the twelve-month period following the acquisition date. Beyond this period, these adjustments are recorded in accordance with IAS 8 if they correspond to corrections of errors.

The interest of minority shareholders in the acquiree is initially measured at the minority s proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Translation of foreign subsidiaries

For the financial statements of all the Group s entities for which the functional currency is different from that of the parent company, the following methods are applied:

·

the assets and liabilities, including the goodwill and the fair value adjustments in the consolidated accounts, are translated into euros at the rate effective at the end of the period;

·

the revenues and costs are translated into euros at the average exchange rate of the period.

The translation adjustments arising are directly recorded in shareholders equity.

Translation of foreign currency transactions

Transactions in foreign currency are translated at the exchange rate effective at the trade date. Monetary assets and liabilities in foreign currency are translated at the rate of exchange prevailing at the balance sheet date. The differences arising on the translation of foreign currency operations (monetary assets and liabilities hedged) are recorded in the income statement as a profit or loss on exchange.

The non-monetary assets and liabilities are translated at the historical rate of exchange effective at the trade date. However, the recoverable value of depreciated tangible assets is determined by reference to the exchange rate at the balance sheet date.

The main exchange rates used for translation (one unit to each foreign currency converted to euros) are summarized in the following table:

	Closing rate			**Average Rate**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
US dollar (US$)	0.75945	0.84331	0.73303	0.79180	0.80550	0.80173
Pound sterling (GBP)	1.48965	1.45590	1.41365	1.46462	1.46248	1.47262
Canadian dollar	0.65433	0.72546	0.60938	0.69940	0.66470	0.61882
Hong Kong dollar	0.09767	0.10877	0.09429	0.10191	0.10359	0.10294
China Renminbi	0.09728	0.10453	0.08857	0.09950	0.09844	0.09686

The average rate is determined by taking the average of the month-end closing rates for the year period, unless such method results in a material distortion.

Property, Plant and Equipment (PPE)

All PPE are recognized at cost less any depreciation or impairment loss, excluding the cost of borrowings which are expensed as incurred. They are essentially amortized using the straight-line method over the useful life of the asset, which ranges from 20 to 40 years for buildings and from 1 to 12 years for materials and machinery. Each material component of a composite asset with different useful lives or different patterns of depreciation is accounted for separately for the purpose of depreciation and for accounting of subsequent expenditure.

The assets held under finance leases are capitalized at the lower of the present value of future minimum payments and the fair value of the leased assets. They are amortized using the straight-line method over the shorter of the estimated useful life of the asset and the duration of the lease. The costs related to the assets acquired through these contracts are included within the amortization allowances in profit and loss.

Leases

Leases which transfer substantially all risks and rewards incidental to the ownership of the leased asset are classified as finance leases. This transfer is based on different indicators analyzed like (i) the transfer of ownership at the end of the lease, (ii) the existence of a bargain price option in the agreement, (iii) the fact that the lease term is for the major part of the economic life of the asset, or (iv) the present value of minimum lease payments amounts to substantially all of the fair value of the leased asset. The assets held under finance leases are capitalized by the Group and a financial liability is accounted for by the lessee. Leases which are not classified as finance leases are operating leases. The payments related to these contracts are recorded as expenses on a straight-line basis over the lease term.

Goodwill

At the acquisition date, goodwill is measured at its cost, being the excess of the costs of the business combination over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is always presented in the currency of the acquired subsidiary/associate and measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested annually for impairment.

Intangible assets

Intangible assets consist mainly of development projects capitalized, trademarks, rights for use of patents and acquired customer relationships. Intangibles acquired through a business combination are recognized at fair value while separately acquired intangible assets are recorded at purchase cost and internally generated intangibles are recognized at production cost. Borrowing costs are expensed when incurred. Purchase cost comprises acquisition price plus all associated costs relating to the acquisition and set-up. All other costs, including those relating to the development of internally generated intangible assets such as brands, customer files, etc., are recognized as expenses of the period when they are incurred. Intangible assets considered to have a finite useful life are amortized over their estimated useful lives and their value written down in the case of any impairment loss. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually. Depending on the nature and the use of the intangible assets, the amortization of these assets is included either in Cost of sales , or Selling and administrative expenses or Other income (expense) or Research and development expenses .

(a) Research and development projects

Research expenditures are expensed as incurred. Development costs are expensed as incurred, unless the project to which they relate meets the IAS 38 capitalization criteria. Recognized development projects correspond to projects which objectives are to develop new processes or to improve significantly existing processes, considered as technically viable and expected to provide future economic benefits for the Group. Development projects are recorded at cost less accumulated depreciation and impairment losses, if any. The costs of the internally generated development projects include direct labor costs (including pension costs and medical retiree benefits), costs of materials and service fees necessary for the development projects. They are amortized over a period ranging from one to five years starting from the beginning of the commercial production of the projects, based on units sold or based on units produced or using the straight-line method.

(b) Patents and trademarks

Patents are amortized on a straight-line basis over the expected period of use. Trademarks are considered as having an indefinite useful life and are not amortized, but are tested for impairment annually according to IAS 36. The main reasons retained by the Group to consider a trademark as having an indefinite useful life are: its positioning in its market expressed in terms of volume of activity, international presence and notoriety, and its expected long term profitability.

(c) Customer relationships

Customer relationships that are acquired through business combinations are amortized over the expected useful life of such relationships, which range from 8 to 20 years (taking into account probable renewals of long-term customer contracts that last generally from 1 to 5 years).

(d) Other intangible assets

This caption comprises mainly acquired software.

Impairment of intangible assets, goodwill and PPE

Goodwill, intangible assets having an indefinite useful life and development projects not yet available for use are tested annually for impairment in September and whenever circumstances indicate that they might be impaired.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units (CGU) or groups of cash-generating units that represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. For Thomson, the lowest level at which the Group manages its operations generally coincides with the level of information that is given to the Executive Committee for management purposes.

Tangible and intangible assets having a definite useful life are tested for impairment at the balance sheet date only if events or circumstances indicate that they might be impaired. The main evidence indicating that an asset may be impaired includes the existence of significant changes in the operational environment of the assets, a significant decline in the expected economic performance of the assets, or a significant decline in the revenues or in the market share of the Group.

The impairment test consists of comparing the carrying amount of the asset with its recoverable amount. The recoverable amount of the asset is the higher of its fair value less costs to sell and its value in use.

The fair value less costs to sell corresponds to the amount that could be obtained from the sale of the asset (or the CGU), in an arm s-length transaction between knowledgeable and willing parties, less the costs of disposal.

Value in use is the present value of the future cash flow expected to be derived from an asset or group of assets. For determining the value in use, the Group uses estimates of future pre-tax discounted cash flows generated by the asset over a period of 5 years, including a residual value when appropriate. These flows are consistent with the most recent budgets approved by the Executive Committee of the Group. Cash flows beyond this period are estimated using a steady or declining growth rate for the subsequent years. Estimated cash flows are discounted using pre-tax long-term market rates, reflecting the time value of money and the specific risks of the assets.

An impairment loss corresponds to the difference between the carrying amount of the asset (or group of assets) and its recoverable amount and is recognized in Other income (expense) for continuing operations unless the impairment is related to discontinued operations. In accordance with IAS 36, impairment of goodwill cannot be reversed.

Assets held for sale and discontinued operations

Discontinued operations are accounted for in accordance with IFRS 5, which the Group has elected to apply prospectively as from January 1, 2005.

(a) Assets held for sale

A non-current asset (or disposal group) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This means the asset (or disposal group) is available for immediate sale and its sale is highly probable. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its fair value less costs to sell and its carrying amount. Any impairment loss for write-down of the asset (or disposal group) to fair value less costs to sell is recognized in profit or loss.

(b) Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of (by sale or otherwise) or is held for sale. To be disclosed as discontinued, the operation must have been stopped or be classified in the asset held for sale category. The component discontinued is clearly distinguishable operationally and for reporting purposes. It represents a separate major line of business (or geographical area of business), is part of a single major plan of disposal or is a subsidiary acquired exclusively for resale.

The profit (loss) from discontinued operations is presented as a separate line item on the face of the income statement with a detailed analysis provided in Note 12. The income statement data for all prior periods presented are reclassified to present the results of operations meeting the criteria of IFRS 5 as discontinued operations (see Note 5 for details on this reclassification). In the statement of cash flows, the amounts related to discontinued operations are disclosed separately.

Inventories

Inventories are valued at acquisition or production cost. The production costs include the direct costs of raw materials, labor costs and a part of the overheads representative of the indirect production costs, and exclude the general administrative costs. The cost of inventory sold is determined based on the weighted average method or the FIFO

(first in first out) method, depending on the nature of the inventory. When the net realizable value of inventories is lower than its carrying amount, the inventory is written down by the difference.

Customer contract advances

As part of its normal course of business, Thomson makes cash advances, generally within its Services segment, to its customers. These are generally in the framework of a long term relationship or contract and can take different forms. Contract advances primarily relate to cash advances made to its customers under long-term contracts. Consideration is typically paid as an advance to the customers in return for the customer s various commitments over the life of the contracts. These contracts award to Technicolor a customer s business within a particular territory over the specified contract period (generally from 1 to 5 years). The contracts contain provisions that establish pricing terms for services and volumes to be provided and other terms and conditions.

Such advances payments are classified under Non-current assets , recorded as Contracts advances and are amortized as a reduction of Revenues on the basis of units of production or film processed.

Financial assets

The Group has elected to apply IAS 32 and IAS 39 from January 1, 2005. Financial assets are classified in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. Except for financial assets carried at fair value through profit or loss, which are initially recognized at fair value and transaction costs expensed, financial assets are recognized at the trade date the date when the Group commits to purchase or sell the asset at fair value plus transaction costs.

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

This category has two sub-categories: the financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months after the balance sheet date. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising, from changes in the fair value, including interest and dividend income, are presented in the income statement within Other financial income (expense) , in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet. Loans and receivables are, subsequently to initial recognition, carried at amortized cost using the effective interest method.

(c) Available-for-sale financial assets

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

Available-for-sale financial assets are subsequently carried at fair value and changes in the fair value are recognized directly in equity except for the part corresponding to the foreign exchange differences on monetary securities (debt instruments) denominated in a foreign currency which are recognized in profit or loss.

When securities are sold or impaired, the accumulated fair value adjustments recognized in equity are recycled through profit or loss in the line item Other financial income (expense) in the income statement.

Interest on available-for-sale securities calculated using the effective interest rate method is recognized in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Group s right to receive payments is established.

Derecognition

Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value measurement

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

Impairment of financial assets

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

Financial liabilities hybrid/compound instruments

(a) Compound instruments/convertible bonds

A compound instrument is a financial instrument that contains both a financial liability component and an equity component. The equity component (option to exchange/convert into Thomson s shares) grants an option to the holder of the instrument to convert the instrument into an equity instrument of the issuer.

These bonds convertible into new or existing shares were accounted for as financial debt in the Group s financial statements under French GAAP. According to IAS 32, these specific liabilities are accounted for separately as a financial liability and an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. The carrying amount of the liability component is measured at the fair value of a similar liability that does not have an associated equity component (the fair value is determined from the present value of future cash flows relating to a similar instrument without an equity component). The carrying value of the equity instrument represented by the option to convert the instrument into Thomson s shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole. Transaction costs directly attributable to issue the bonds are allocated to the liability and equity components of the instruments in proportion to the allocation of proceeds.

(b) Hybrid instruments (convertible in U.S. dollar issued in September 2004)

Conversion options embedded in convertible bonds denominated in foreign currency are bifurcated as derivatives and are re-measured at fair value with a direct impact in profit or loss at each reporting date. Although not addressed directly in IAS 32, IFRIC concluded in April 2005, that such options did not meet the definition of equity instruments as the settlement represented a variable amount of cash (the holder can exercise the option to receive a fixed number of shares by way of conversion of a financial asset whose amount in euro is not fixed). In September 2005, this decision was confirmed by the IASB which refused to amend IAS 32 to modify the treatment of convertible bonds denominated in foreign currency. Because the Group adopted IAS 32 and 39 from January 1, 2005 the change in fair value as of December 31, 2004 is presented in equity. The change in fair value of the option from January 1, 2005 is then reflected in profit or loss.

Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade receivables and payables

The trade receivables and payables are part of the current financial assets and liabilities. At the date of their initial recognition, they are measured at the fair value of the amount to be received or paid. This generally represents their nominal value because of the short time between the recognition of the instrument and its realization (for assets) or its settlement (for liabilities). A receivable is derecognized when it is sold without recourse and when it is evidenced that the Group has transferred substantially all the significant risks and rewards of ownership of the receivable and has no more continuing involvement in the transferred asset.

Derivatives

(a) Accounting treatment of derivatives under IFRS (as from January 1, 2005)

The Group uses derivatives as hedging instruments for hedges of foreign currency risks and changes in interest rates. These instruments include agreements for interest rate swaps, options and foreign currency forward contracts. If hedge accounting criteria are met, they are accounted for in accordance with hedge accounting.

Derivative instruments may be designated as hedging instruments in one of three types of hedging relationship:

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fair value hedge, corresponding to a hedge of the exposure to the change in fair value of an asset or a liability;

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cash flow hedge, corresponding to a hedge of the exposure to the variability in cash flows from future assets or liabilities;

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net investment hedge in foreign operations, corresponding to a hedge of the amount of the Group s interest in the net assets of these operations.

Derivative instruments are qualified for hedge accounting when:

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at the inception of the hedge, there is a formal designation and documentation of the hedging relationship;

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the hedge is expected to be highly effective, its effectiveness can be reliably measured and it has been highly effective throughout the financial reporting periods for which the hedge was designated.

The effects of hedge accounting are as follows:

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for fair value hedges of existing asset and liability, the hedged portion of the asset or liability is recognized in the balance sheet at fair value. The gain or loss from remeasuring the hedged item at fair value is recognized in profit or loss and is offset by the effective portion of the loss or gain from remeasuring the hedging instrument at fair value;

.

for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity because the change in the fair value of the hedged portion

of the underlying item is not recognized in the balance sheet and the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss. Amounts recognized directly in equity are subsequently recognized in profit or loss in the same period or periods during which the hedged transaction affects profit or loss. Such periods are generally less than 6 months except for the licensing activity and certain activities linked to long term contracts where the period is generally up to one year;

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for net investment hedge, any gain or loss on the hedging instrument relating to the effective portion is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are transferred to profit and loss as an adjustment to the profit or loss on disposal of the investment.

Derivatives not designated as hedging instruments are measured at fair value. Subsequent changes in fair value are recognized in the income statement.

(b) Accounting treatment of derivatives under French GAAP (until December 31, 2004)

Until December 31, 2004, under French GAAP, foreign currency forward contracts, and foreign currency options, were considered as hedges for accounting purposes if they were designated to hedge accounts receivable and accounts payable amounts on the balance sheet at the closing date of the period or anticipated commercial transactions. The nature of the commercial products sold and the consistency of the demand for these products are such that it was reasonable to consider the anticipation of future cash flows generated by market demand as similar to firm order commitments.

Gains and losses on foreign currency instruments designated as hedges of the following year s anticipated commercial transactions were recognized as income or expense over the same period as the underlying transaction.

Foreign currency instruments that did not qualify for hedge accounting were recorded at market value, and gains and losses resulting from these instruments were recognized as other financial income (expense) in the consolidated statements of operations.

Regarding interest rate instruments, gains and losses on interest rate instruments designated as hedges of the Group s debt instruments, were accounted for over the life of the contract, on an accrual basis, as an increase or decrease to interest expense and the accruals were included either in other current assets or other current liabilities on the balance sheet.

Interest rate swaps and forward rate agreements that did not qualify for hedge accounting as well as interest rate caps were marked-to-market and, if there was a loss, it was recognized in other financial income (expense) in the consolidated statements of operations.

Under French GAAP the fair value of derivative instruments designated as hedges of forecast transactions were not recorded in the balance sheet.

Marketable securities

Marketable securities are valued at fair value. Changes in fair value are recognized in other financial income (expense) included in the heading Finance costs net .

This caption includes some classes of investment funds which are subject to risks of change in value that can not be considered as insignificant according to IAS 7 criteria.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, i.e. investments that are readily convertible to a known amount of cash and subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Treasury shares

Treasury shares are recorded at purchase cost and deducted from shareholders equity. The gain or loss on disposal or cancellation of these shares is recorded directly in shareholders equity and not in the income statement.

Equity transaction costs

Incremental and external costs directly attributable to the equity transactions are accounted for as a deduction from equity.

Deferred and current income taxes

Deferred taxes result from:

- temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the Group consolidated balance sheet; and
- the carryforward of unused tax losses and tax credits.

Deferred taxes for all temporary differences are calculated for each taxable entity (or group of entities) using the balance sheet liability method.

All deferred tax liabilities are recorded except:

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when the deferred tax liability results from the initial recognition of goodwill, or from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the trade date, affects neither the net income nor the taxable income or loss; and

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for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the Group is able to control the timing of the reversal of the temporary differences and when it is probable that these temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recorded:

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for all deductible temporary differences, to the extent that it is probable that future taxable income will be available against which these temporary differences can be utilized, except when the related deferred tax asset results from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the trade date, affects neither the net income nor the taxable income or loss;

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for the carryforward of unused tax losses and unused tax credits, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

The recoverable amount of the deferred tax assets is reviewed at each balance sheet date and reduced when it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are valued using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred taxes are classified as non-current assets and liabilities.

Income tax expense comprises current and deferred tax. Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Post employment benefits and other long-term benefits

(a) Post employment obligations

The Group operates various post employment schemes for some employees. Contributions paid and related to defined contribution plan i.e. pension plan under which the Group pays fixed contributions and has no legal nor constructive obligations to pay further contributions (for example if the fund does not hold sufficient assets to pay to all employees the benefits relating to employee service in the current and prior periods) are recorded as expenses as they fall due.

The other pension plans are analyzed as defined benefit plan (i.e. pension plans that define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation) and are recognized in the balance sheet based on an actuarial valuation of the defined benefit obligations at the balance sheet date less the fair value of the related plan assets.

The method used for determining employee benefits obligations is based on the Projected Unit Credit Method. The present value of the Group benefit obligations is determined by attributing the benefits to employee services in accordance with the benefit formula of each plan. The provisions for these benefits are determined annually by independent qualified actuaries based on demographic and financial assumptions such as mortality, employee turnover, future salaries and benefit levels, discount rates and expected rates of return on plan assets.

Expenses related to interest cost and expected return on plan assets are recognized in Finance costs-net .

According to revised IAS 19, net cumulative actuarial gains and losses of the period are immediately recognized in the provision for post employment obligation with a corresponding debit or credit to equity in the Statement of Recognized Income and Expense.

(b) Other long-term benefits

The obligations related to the other long-term benefits (jubilee award) are also based on actuarial valuations.

Share-based payments

As of January 1, 2004, the Group applied the requirements of IFRS 2 *Share based Payments* . In accordance with the transition provisions, IFRS 2 has been applied to all equity investments granted after November 7, 2002 that were unvested as of January 1, 2005.

The Group issues equity-settled and cash-settled share-based payments to certain employees. According to IFRS 2, the advantage given to the employees regarding the grant of the stock options consists of an additional compensation to these employees estimated at the grant date. Equity-settled share-based payments are measured at fair value at the grant date. They are accounted for as an employee expense on a straight-line basis over the vesting period of the plans (usually 3 to 4 years), based on the Group s estimate of options that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognized at the current fair value determined at each balance sheet date with any changes in fair value recognized in profit or loss for the period.

The fair value of instruments, and especially of options granted, is determined based on the Black-Scholes valuation model. The expense recognized takes into account the number of options expected to be vested annually.

Provisions

Provisions are recorded at the balance sheet date when the Group has an obligation as a result of a past event and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group s actions where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the Group has indicated to other parties that it will accept certain responsibilities, and as a result, has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

The recorded provision represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded but details of the obligation are disclosed in the notes to the financial statements.

Where the discounting effect is material, the recorded amount is the present value of the expenditures expected to be required to settle the related obligation. The present value is determined using pre-tax discount rates that reflect the assessment of the time value of money. Unwinding of discounts is recognized in Finance costs-net .

Restructuring provisions

Provisions for restructuring costs are recognized when the Group has a constructive obligation towards third parties, which results from a decision made by the Group before the balance sheet date and supported by the following items:

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the existence of a detailed and finalized plan identifying the sites concerned, the location, the role and the approximate number of headcounts concerned, the nature of the expenses that are to be incurred and the effective date of the plan; and

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the announcement of this plan to those affected by it.

The restructuring provision only includes the expenses directly linked to the plan.

Revenues

Revenue is measured at the fair value of the amount received or receivable, after deduction of any trade discounts or volume rebates allowed by the Group, including customer contract advances amortization.

When the impact of deferred payment is significant, the fair value of the revenue is determined by discounting all future payments.

(a) Sales of goods

Related revenue is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods, which generally occurs at the time of shipment.

(b) Services agreements

The Group signs contracts which award to Technicolor a customer s business within a particular territory over the specified contract period (generally over 1 to 5 years). The contracts contain provisions that establish pricing terms for services and volumes to be provided and other terms and conditions.

Revenue is recognized when the entity has transferred to the customer the major risk and rewards of ownership, which generally occurs, depending on contract terms, upon duplication or delivery.

(c) Royalties

Patent licensing agreements generally state that a specified royalty amount is earned at the time of shipment of each product to a third-party by a licensee. The gross royalty amount is determined on a quarterly basis and in accordance with the license agreement.

(d) Long-term contracts

Some part of the Systems operations, notably Grass Valley consists in the design, planning, integration and development of broadcast systems. Because of the nature of this activity, the date when the contract activity begins

and the date when the activity is completed usually fall into different accounting periods. Consequently, income and expenses on these contracts are recognized in accordance with the percentage of completion method and probable losses on contracts in progress are fully recognized as soon as they are identified.

Earnings per share

Basic earnings per share are calculated by dividing income (loss) attributable to ordinary equity holders of the parent entity by the weighted-average number of shares outstanding during the period, excluding the treasury shares.

Diluted earnings per share is calculated by dividing income (loss) attributable to ordinary equity holders of the parent entity by the weighted-average number of shares outstanding during the period assuming that all potentially dilutive securities were exercised and that any proceeds from such exercises were used to acquire shares of the company s stock at the average market price during the period or the period the securities were outstanding.

Potentially dilutive securities comprise:

- outstanding put options, if dilutive;
- the securities issued under the company s management incentive plan, to the extent the average market price of the company s stock exceeded the adjusted exercise prices of such instruments;
- and shares issuable in relation to outstanding convertible bonds, if dilutive.

3 Financial risk management

Thomson faces a wide variety of financial risks including market risk (due to fluctuations in exchange rates, interest rates, and prices of financial instruments and commodities), liquidity risk and credit risk.

Thomson s financial market risks and liquidity risk are managed centrally by its corporate treasury department in France.

Management of financial risks by the corporate treasury is done in accordance with corporate policies and procedures which cover, among other aspects, responsibilities, authorizations, limits, permitted instruments and reporting. All financial market risks are monitored continually and reported regularly to the Chief Financial Officer, to the Executive Committee and to the Audit Committee via various reports showing the Group s exposures to these risks with details of the transactions undertaken to reduce these risks.

To reduce interest rate, currency exchange rate and commodity risk, the Group enters into hedging transactions using derivative instruments. To reduce liquidity risk, the Group uses various long-term and committed financings.

With regard to derivative instruments, Thomson s policy is not to use derivatives for any purpose other than for hedging our commercial and financial exposures. This policy does not permit the Group or its subsidiaries to take speculative market positions.

The Group may also use derivatives to reduce its exposure to stock price fluctuations of certain of its investments in listed companies.

Credit risk on commercial clients is managed by each segment based on policies that take into account the credit quality and history of customers. From time to time, the Group may decide to insure or factor without recourse trade receivables in order to manage underlying credit risk.

The Group s derivative and cash transaction counterparties are limited to highly rated financial institutions. Moreover the Group has policies limiting the maximum amount of exposure to any single counterparty.

Foreign exchange risk

Translation risks

The assets, liabilities, revenues and expenses of the Group s operating entities are denominated in various currencies, the majority being in U.S. dollars. The Group s consolidated financial statements are presented in euro. Thus, assets, liabilities, revenues and expenses denominated in currencies other than euro must be translated into euro at the applicable exchange rate to be included in the Group consolidated financial statements.

Transaction risks

Commercial exposure

Thomson s foreign exchange risk exposure mainly arises on purchase and sale transactions by its subsidiaries in currencies other than their functional currencies. In most cases, the Group s subsidiaries will hedge with the corporate

treasury department their estimated exposure, thereby eliminating the currency risk for the period of the hedge. The corporate treasury department hedges the net position in each currency with external forward operations or occasionally options.

Financial exposure

The Group s general policy is for subsidiaries to borrow and invest excess cash in the same currency as their functional currency thereby limiting the exposure of its financial assets and liabilities to foreign exchange rate fluctuations.

Interest rate risk

Thomson is mainly exposed to interest rate risk on its deposits and indebtedness. In order to reduce this exposure, it enters into interest rate swaps, forward rate agreements and caps.

In accordance with corporate policies and procedures, the corporate treasury department manages the financings of the Group, and hedges interest rate risk exposure in accordance with target ratios of fixed to floating debt, which are set periodically as a function of market conditions.

Commodity risk

The Group is exposed to the variation in prices of certain metals, notably silver. This risk is covered with futures contracts.

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4 Critical accounting estimates and judgments

Thomson s principal accounting policies are described in Note 2 above. Certain of Thomson s accounting policies require the application of judgment by management in selecting appropriate assumptions for calculating financial estimates which inherently contain some degree of uncertainty. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the reported carrying values of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from these estimates, while different assumptions or conditions may yield different results. Thomson s management believes the following to be the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements under IFRS.

Tangible and intangible assets with finite useful lives

The Group records intangible assets with finite useful lives (mainly customer relationships, software, development projects and certain rights on intellectual property acquired) relating to operations and to production facilities under Intangible assets, net and tangible fixed assets under Property, plant and equipment (PPE). Significant estimates and assumptions are required to decide (i) the expected useful lives of these assets for purposes of their depreciation and (ii) whether there is any impairment of their value requiring a write-down of their carrying amount. Estimates that are used to determine the expected useful lives of fixed assets are defined in the Group s accounting policies manual and are consistently applied throughout the Group.

For the year ended December 31, 2006, the Group recognized depreciation expense amounting to €183 million related to tangible fixed assets and amortization expense of €148 million for intangible assets with finite useful lives (these figures include depreciation expense booked in the loss from discontinued operations). As of December 31, 2006, the net carrying amount of PPE and intangible assets with finite useful lives amounted to €813 million and €804 million, respectively.

In order to ensure that its assets are carried at no more than their recoverable amount, Thomson evaluates on a regular basis certain indicators that would result, if applicable, in the calculation of an impairment test in accordance with the accounting policy stated in Note 2 above. The recoverable amount of an asset or group of assets may require the Group to use estimates and mainly to assess the future cash flows expected to arise from the asset or group of assets and a suitable discount rate in order to calculate present value. Any negative change in relation to the operating performance or the expected future cash flow of individual assets or group of assets will change the expected recoverable amount of these assets or groups of assets and therefore may require a write-down of their carrying amount.

Impairment tests of goodwill and intangible assets with indefinite useful lives

We review annually goodwill and other indefinite-lived intangible assets for impairment in accordance with the accounting policy stated in Note 2 above. Such review requires management to make material judgments and estimates when performing impairment tests.

Thomson s management believes its policies relating to such impairment testing are critical accounting policies involving critical accounting estimates because determining the recoverable amount of reporting units requires (1) determining the appropriate discount rate to be used to discount future expected cash flow of the cash-generating unit,

(2) estimating the value of the operating cash flows including their terminal value, (3) estimating the growth rate of the revenues generated by the assets tested for impairment and (4) estimating the operating margin rates of underlying assets for related future periods. These assumptions used by the Group for the determination of the recoverable amount are described in Note 14.

As of December 31, 2006 the net book value of goodwill and indefinite-lived intangible assets amounted to €1,714 million and €267 million, respectively.

Thomson performed an annual impairment test in 2006, which did not result in any impairment charge of these assets. Based on differences observed between the carrying amount and recoverable amount of goodwill and indefinite-lived intangible assets, the increase by one point in the discount rate or the decrease by one point of the perpetual growth rate would not have resulted in an impairment loss.

Deferred tax

Management judgment is required to determine the Group s deferred tax assets and liabilities and the extent to which deferred tax assets can be recognized in accordance with the accounting policy stated in Note 2 above. When a specific subsidiary has a history of recent losses, future positive taxable income is assumed improbable, unless the asset recognition can be supported for reasons such as (1) the losses having resulted from exceptional circumstances which will not re-occur in a nearby future, and/or (2) the expectation of exceptional gains and (3) future income to be derived from long-term contracts. We have considered tax-planning in assessing whether deferred tax assets should be recognized.

As of December 31, 2006, the Group has recorded a €143 million deferred tax liability and €397 million of deferred tax assets reflecting management's estimates.

Post employment benefits

The Group's determination of its pension and post-retirement benefits obligations and expense for defined benefit plans is dependent on the use of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 27 to our consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and annual rate of increase in future compensation levels. Our assumptions regarding pension and post-retirement benefits obligations include, among others, discount rates and rates of future increase in compensation and are based on actual historical experience and external data.

The assumptions regarding the expected long-term rate of return on plan assets are determined by taking into account, for each country where the Group has a plan, the distribution of investments and the long-term rate of return expected for each of its components. The capital markets experience fluctuations that cause downward/upward pressure on assets value and higher volatility. As a result, short-term valuation of related plan assets is decreasing/increasing, causing a corresponding increase/decrease of the present value of the pension and post-retirement obligation. While Thomson s management believes that the assumptions used are appropriate, significant differences in actual experiences or significant changes in the assumptions may materially affect our pension and post-retirement benefits obligations under such plans and related future expense.

As of December 31, 2006 the post-employment benefits liability amounted to €572 million. The present value of the obligation amounted to €756 million, the fair value of plan assets amounted to €187 million and unrecognized prior service cost and held for sale reclassification amounted to €3 million. For the year ended December 31, 2006, the Group recognized €121 million of gain related to such liability including a curtailment gain of €167 million.

Capital gain on exchange of non-monetary assets

On July 31, 2004, Thomson entered into a transaction with TCL, by which Thomson has contributed its TV manufacturing business to a new entity, TCL-Thomson Electronics (TTE), in exchange of a non-controlling interest in this entity. TCL had the control of TTE from that date. Thomson has assessed the capital gain resulting from this transaction as being the difference between the fair value and the carrying amount of the exchanged assets less the portion of that gain represented by the economic interest retained by the Group.

Although in order to determine the fair value of the business disposed of the Group s management has used certain valuation techniques for which assumptions retained have impacted the fair value of the business disposed of and therefore the capital gain recognized. The Group set up a measurement process that has involved an external appraiser using several methodologies, of which one is based on external available information.

Provisions and litigations

Thomson s management makes judgments about provisions and contingencies, including the probability of pending and potential future litigation outcomes that in nature are dependent on future events that are inherently uncertain. In making its determinations of likely outcomes of litigation and tax matters etc, management considers the evaluation of outside counsel knowledgeable about each matter, as well as known outcomes in case law. See Note 36 for a description of the significant legal proceedings and contingencies.

Measurement of the conversion option embedded in certain convertible debt

On September 16, 2004, Thomson issued certain subordinated bonds that are (1) redeemable in U.S. dollars or (2) convertible into newly issued ordinary shares or existing ordinary shares (or a combination of both), which, at the option of the bondholders, may be delivered in the form of American Depositary Shares evidencing such ordinary shares (the Bonds). As required by IAS 32 and 39, the embedded conversion option has been bifurcated and accounted for separately within non-current liabilities.

The conversion option and the debt component are recognized at fair value at inception. Subsequent changes in the fair value of the embedded derivative have been charged to the statement of operations under IFRS.

As such Thomson s management is required to make significant estimates in order to measure the fair value of the conversion option that has been bifurcated from the bonds. The measurement process comprises the determination, using an option instrument measurement model, such as the Black & Scholes or Binomial models. Main inputs relate to the discounted volatility of Thomson shares on the stock exchange, Thomson shares closing prices and the exchange rate as of the measurement date.

The fair value of the embedded conversion option bifurcated from the debt component of the convertible debt instrument amounted to €45 million at inception. In 2006, the change in fair value required Thomson to recognize a net non cash financial gain amounting to €6 million (comprising a gain on the fair value adjustment of the option of €4 million and a foreign exchange gain of €2 million). In 2005, subsequent change in fair value required Thomson to recognize a net non cash financial gain amounting to €83 million (comprising a gain on the fair value adjustment of the option of €94 million and a foreign exchange loss of €11 million). In 2004, subsequent change in fair value required Thomson to recognize a net non cash financial loss amounted to €84 million (comprising a loss on the fair value adjustment of the option of €83 million and a foreign exchange loss of €1 million). However, since IAS 32 and 39 apply only from January 1, 2005, the loss incurred from inception to December 31, 2004 has been charged against equity.

5 Bridge with financial statements released as of December 31, 2005

According to IFRS 5, the IFRS statement of operations for the comparative periods has to be restated in order to reflect the effect of the scope of discontinued operations defined as of December 31, 2006. The column IFRS 5 reflects therefore the statement of operations of the following additional discontinued operations compared to December 31, 2005:

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SME activities and Retail Decoders Europe business have been included in the scope of the Audio Video and Accessories (AVA) business as they are expected to be part of the disposal deal;

.

in the Tubes business, a small facility in Brazil was sold in September 2006 and some financial assets in December 2006.

5.1 Bridge for December 31, 2005 income statement

(in € millions)	December 31, 2005 (released in 2005 financial statements)	IFRS 5	December 31, 2005 (released in 2006 financial statements)
Continuing operations			
Revenues	5,691	(100)	5,591
Cost of sales	(4,322)	82	(4,240)
Gross margin	**1,369**	**(18)**	**1,351**
Selling and administrative expenses	(655)	17	(638)
Other income (expense)	(98)	2	(96)
Research and development expenses	(234)	7	(227)
Profit from continuing operations before tax and net finance costs	**382**	**8**	**390**
Finance costs net	**(54)**	**12**	**(42)**
Share of profit (loss) from associates	(82)	-	(82)
Income tax	(70)	2	(68)
Profit (loss) from continuing operations	**176**	**22**	**198**
Discontinued operations			
Profit (loss) from discontinued operations	(749)	(22)	(771)
Net income (loss)	**(573)**	**-**	**(573)**

5.2 Bridge for December 31, 2004 income statement

(in € millions)	December 31, 2004 (released in 2005 financial statements)	IFRS 5	December 31, 2004 (released in 2006 financial statements)
Continuing operations			
Revenues	6,036	(56)	5,980
Cost of sales	(4,634)	40	(4,594)
Gross margin	**1,402**	**(16)**	**1,386**
Selling and administrative expenses	(662)	9	(653)
Other income (expense)	(70)	1	(69)
Research and development expenses	(204)	3	(201)
Profit from continuing operations before tax and net finance costs	**466**	**(3)**	**463**

Finance costs net	**(29)**	**1**	**(28)**
Share of profit (loss) from associates	(20)	-	(20)
Income tax	(93)	-	(93)
Profit (loss) from continuing operations	**324**	**(2)**	**322**
Discontinued operations			
Profit (loss) from discontinued operations	(885)	2	(883)
Net income (loss)	**(561)**	**-**	**(561)**

6 Significant changes in the scope of consolidation

For the years ended December 31, 2006, 2005 and 2004, Thomson s consolidated balance sheets and statements of operations include the accounts of all investments in subsidiaries, jointly controlled entities and associates (the main ones being listed in Note 39). The following is a summary of the number of companies consolidated and accounted for under the full consolidation method, the equity method and the proportionate consolidation method.

	As of December 31,											
	2006				2005				2004			
	Europe (*)	France	US	Others	Europe (*)	France	US	Others	Europe (*)	France	US	Others
Number of companies:												
Parent company and consolidated subsidiaries	82	33	27	66	78	40	27	63	69	37	27	60
Companies consolidated under the proportionate method	13	5	11	1	15	5	11	1	17	5	10	1
Companies accounted for under the equity method	-	3	2	1	-	3	2	2	1	3	2	3
Sub-total	**95**	**41**	**40**	**68**	**93**	**48**	**40**	**66**	**87**	**45**	**39**	**64**
TOTAL		**244**				**247**				**235**		

(*)

Except France.

Changes in 2006

(a) Main acquisitions

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On January 13, 2006, Thomson acquired the network services business assets and liabilities of Electronic Data Systems, the company Convergent Media Systems (Convergent). These assets provide broadcast-quality, networked digital video services for business television, distance learning, and networked digital signage. The installed base is approximately 70 networks with 35,000 sites and 400,000 viewing locations. The purchase price was approximately U.S.$ 37 million (equivalent to €32 million at the date of transaction exchange rate), subject to an increase by up to U.S.$ 7 million (€5 million at the

December 31, 2006 exchange rate) dependent upon the performance of this company in 2006 and 2007. Thomson consolidates this activity from January 13, 2006. Convergent reports in the Service segment.

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On January 26, 2006, Thomson took the control of 94% of the share capital of Canopus Co., Ltd. (Canopus), a Japanese company listed on the Tokyo Stock Exchange, for a total consideration of ¥12 billion (equivalent to €87 million at the date of the transaction exchange rate). Canopus is a Japan-based leader in high definition desktop video editing software. This acquisition was completed in two steps. First step, on December 5, 2005, Thomson acquired 33% of the share capital of Canopus Co., Ltd. *via* a private agreement. Second step, Thomson launched a public tender offer for the remaining Canopus shares. The final closing took place on January 26, 2006, thus allowing the company to take control of an additional 61% of the share capital of Canopus. The purchase price was partially paid in cash and the remaining part by the delivery of 821,917 Thomson shares. On August 11, 2006, Thomson acquired the remaining 6% of the share capital for €6 million and delisted this company from the Tokyo Stock Exchange. The company is fully consolidated from January 26, 2006. Canopus is included in the Systems segment.

.

On June 23, 2006, Thomson acquired the remaining (16%) minority interests of in the share capital of Nextamp, a French company specialized in the protection of video content with technologies known as watermarking for €2 million paid in cash. This acquisition followed an initial transaction made in 2004 by Thomson with the acquisition of 10% of the share capital of Nextamp, and a second made in 2005 with the acquisition of 74% of the capital for €7 million paid in cash. The total cost of the purchase amounts therefore to €9 million. The company is fully consolidated from June 17, 2005 and is included in the Technology segment.

.

On July 3, 2006 Thomson acquired for €17 million the 49% minority interest of VCF Thématiques (“VCF”). This acquisition followed an initial transaction made in October 2005 whereby Thomson had acquired 51% of the share capital through of a capital increase of €17 million. The company has been fully consolidated from October 27, 2005 and the optional amount due to the minority shareholder was recorded as a debt at an estimated amount of €16 million as of December 31, 2005. VCF Thématiques is included in the Services segment.

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On October 4, 2006, Thomson acquired NOB Cross Media Facilities (NOB CMF), a subsidiary of Nederlands Omroepproduktie Bedrijf (NOB) for a total consideration of €17 million. This company delivers global consulting and management services for the preparation, management, and electronic distribution of multiple forms of radio and video content on multiple media platforms. NOB is the state-owned entity which operates in broadcasting facilities activities in The Netherlands. NOB CMF has been consolidated from October 4, 2006 and is included in the Services segment.

Due to the complexity of the businesses acquired, the identification and evaluation of purchased intangible assets frequently require external expert appraisals, which mean that the Group generally does not finalize purchase price allocations at the closing date. Consequently, for all the acquisitions mentioned above, the purchase price allocation exercise will be completed, as required, within 12 months of the acquisition, and is therefore not yet finalized.

The provisional fair values and the provisional goodwill arising from the transactions mentioned above are as follows:

(in € millions)	**Acquirees’ carrying amount before combination**	**Fair value adjustments**	**Fair value (provisional)**
Net assets acquired			
Property, plant and equipment	66	(12)	54
Intangible assets	-	15	15
Inventories	16	-	16
Trade receivables	16	-	16
Other assets	14	2	16
Bank and cash balances	26	-	26
Provisions	(6)	(2)	(8)
Trade payables	(17)	-	(17)
Other liabilities	(44)	-	(44)
Deferred tax liabilities	-	(8)	(8)
TOTAL NET ASSETS ACQUIRED (*)	**71**	**(5)**	**66**
Purchase consideration (*)			
Cost of acquisition			140
Direct costs relating to the acquisitions			6
TOTAL PURCHASE CONSIDERATION PAID			**146**

Goodwill(*) (provisional amount as of December 31, 2006)	**80**

(*)

Nextamp and VCF acquisition of minority interests not included.

The goodwill is mainly attributable to the anticipated future synergies within the Group.

The contribution to the Group of the acquired businesses for the period from their related acquisition dates to December 31, 2006

is the following:

(in € millions)	**2006**
Contribution in revenues(*)	103
Contribution in profit from continuing operations before tax and net finance costs(*)	3

(*)

Nextamp and VCF acquisition of minority interests not included.

From January 1, 2006 until their related acquisition dates, these businesses had revenue of €40 million and a profit before tax and net finance costs of €2 million.

(b) Main disposals

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In 2005, Thomson agreed to transfer to a German company its remaining optical technology assets and employees in the first half of 2006. The definitive sale was completed in March 2006.

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In October 2006, Thomson reached an agreement with TCL Multimedia Technology Holding Ltd. (TCL Multimedia), a company listed on the Hong Kong Stock Exchange and the parent company of TTE and TCL Corporation, to facilitate TTE s evolution in Europe, to secure the continuation of activities at Thomson s Angers factory as well as to resolve certain issues with the existing contractual framework. In particular, this agreement provided for the termination of the right granted by Thomson to TTE to use the Thomson® trademark at the end of 2008 for most of Europe. In addition, Thomson reached an agreement with TCL Corporation in October 2006 to terminate the lock-up period on the TCL Multimedia shares held by Thomson. On November 3, 2006 Thomson announced it had reduced its holding in TCL Multimedia to 753,888,095 shares, representing 19.32% of TCL Multimedia s share capital, with the sale of 390,294,000 shares in a private placement. Following this sale, Thomson ceased to have a significant influence over TCL Multimedia and, as of that date no longer accounted its interests in TCL Multimedia under the equity method. As of December 31, 2006, Thomson s remaining interest in TCL Multimedia is classified as an available-for-sale financial asset (see Note 17).

Changes in 2005

(a) Main acquisitions

.

On February 4, 2005, Thomson Holding Germany GmbH & Co. OHG purchased 100% of the German company MediaSec Technologies GmbH, a pioneer in digital watermarking and copy detection

technologies, with a strong portfolio of patents and software products. The consideration paid amounted to €4 million. This company is fully consolidated from that date.

.

On March 14, 2005, Thomson acquired 33% control over ContentGuard Holdings, Inc., for an amount of U.S.$ 27 million. ContentGuard is a developer of Digital Rights Management (DRM) technologies. Microsoft and Time Warner own the same percentage. This company is consolidated under the proportionate consolidation method from that date.

.

On March 29, 2005, Thomson acquired 100% of Inventel, a leading provider of innovative voice and data solutions to telecom operators and Internet Service Providers (ISP). Combining Inventel s expertise with Thomson s world leading positions in DSL and video technologies and solutions, is expected to enable the Group to expand its customer base, market reach and ranges of multiple-play gateways.

The total purchase consideration amounted to €146 million consisting of:

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€81 million paid in cash at closing date;

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€65 million paid or to be paid in Thomson shares as follows:

-

2,351,648 shares delivered but locked-up at closing date (€49 million). 1,175,824 shares were released and transferred on June 30, 2006 together with 698,836 additional shares due to the level of price guarantee,

-

712,498 shares to be delivered in different instalments from 2006 to 2008 and subject to certain price adjustments (€14 million). 314,337 shares were delivered in 2006 together with 186,822 additional shares in respect of the price adjustment,

-

87,074 shares to be delivered on June 30, 2006 and 2007 depending on earn-out conditions (€2 million). 72,271 shares were delivered in 2006 together with 42,954 additional shares in respect of the price adjustment.

Thomson may be required to make a subsequent payment in its shares to the sellers as compensation for any reduction below a threshold in the value of shares to be delivered. Thomson may also elect to pay part or all of the shares to be delivered in cash.

In addition a maximum number of 1,760,000 shares were granted at a cost of €20.72 per share depending on retention conditions and vest 50% from July 1, 2006 until September 30, 2007 and 50% from July 1, 2007 until February 29, 2008. Such number of shares may decrease to cap to €8.8 million the total possible gain for the stock holder for each of the two vesting dates. The company is fully consolidated from March 29, 2005.

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On April 20, 2005, Thomson acquired 100% of Cirpack, a French based company. Cirpack has a key softswitch technology expertise that allows telecom operators to drive voice, data and video convergence in IP networks.

The total purchase consideration amounted to €82 million consisting of:

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€40 million paid in cash at closing date;

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€42 million to be paid in Thomson shares as follows:

-

1,050,878 shares delivered on April 20, 2006,

-

1,050,878 shares to be delivered on April 20, 2007.

Thomson may be required to make a subsequent payment in its shares to the seller as compensation for any reduction below a threshold in the value of shares to be delivered. In addition a maximum number of 2,101,756 shares were granted at a cost of €20.23 per share depending on retention conditions and vest 50% in April 2006 and 50% in April 2007. Such number of shares may decrease to cap to €14 million the total possible gain for the stock holder. The company is fully consolidated from April 20, 2005.

.

On June 17, 2005, Thomson acquired 73% of Nextamp a French company specialized in the protection of video content with technologies known as watermarking for a total consideration of €7 million paid in cash. This technology allows the encryption of a digital code in the video content which allows identification of the original source of any copy. An additional 1% has been acquired in September 2005, with the remaining 16% of the share capital of Nextamp acquired on June 23, 2006 for €2 million paid in cash, as discussed above under “main acquisitions“ for 2006. The total cost of the purchase amounts therefore to €9 million. The company is fully consolidated from June 17, 2005.

.

On August 26, 2005, Thomson announced the acquisition of 100% of the American company Premier Retail Network Corporation (PRN), the leader in the fast-growing market of out-of-home video advertising networks. This acquisition furthers Thomson s expansion into the implementation and management of video networks for a broad range of customers spanning broadcasters, cinemas and now retailers. The purchase price amounted to U.S.$ 299 million paid in cash (equivalent to €243 million at the date of transaction exchange rate), including a normalized level of working capital. Premier Retail Network will be part of Thomson's Network Services business unit in the Services segment. The company is fully consolidated from August 26, 2005.

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On October 27, 2005, Thomson acquired 51% of VCF Thématiques. The investment took the form of a capital increase by €17 million and allows Thomson and the previous owner of VCF Thématiques, the VCF Group, a subsidiary of Euro Media TV, to further develop their broadcast playout activities. VCF Thématiques is a leading provider of playout services to TV channels in France, broadcasting more than 1,000 hours of programs a day. According to the shareholder s agreement, Thomson may purchase and may be required to purchase the remainder of the 49% from June 2006, at a price depending on the evolution of the results of the company (acquisition made on July 3, 2006, see above main acquisitions 2006). The company will be part of Thomson s Network Services business unit in the Services Segment. The company is fully consolidated from October 27, 2005 and the optional amount due to the minority shareholder was recorded as a debt at an estimated amount of approximately €16 million.

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On December 31, 2005, Thomson purchased 100% of Thales Broadcast & Multimedia (TBM) for an amount paid of approximately €133 million (of which €64 million for the repayment of current accounts due by acquired affiliates to Thales). The price is still subject to adjustment depending on the level of working capital and cash measured as of the acquisition date, as determined in the contract. This acquisition follows the announcement of a strategic partnership between Thomson and Thales (a leading electronic group), specifically in the domain of high-video content management.

The fair values and the goodwill arising from the transactions mentioned above are as follows:

(in € millions)	**Acquirees' carrying amount before combination**	**Provisional fair value adjustments as of December 31, 2005**	**Fair value adjustments of the current period**	**Fair value at acquisition**
Net assets acquired				
Property, plant and equipment	27	-	1	28
Intangible assets	4	129	21	154
Inventories	46	5	(4)	47
Trade receivables	110	2	(5)	107
Other assets	21	(5)	14	30
Bank and cash balances	61	1	-	62
Provisions	(24)	-	-	(24)
Trade payables	(89)	3	(1)	(87)
Other liabilities	(79)	20	(3)	(62)
Deferred tax liabilities	-	(50)	(6)	(56)
TOTAL NET ASSETS ACQUIRED	**77**	**105**	**17**	**199**
Purchase consideration				
Cost of acquisition				627
Direct costs relating to the acquisitions				7
Total purchase consideration paid				**634**
Goodwill				**435**

The goodwill is mainly attributable to the anticipated future synergies within the Group.

The contribution to the Group of the acquired businesses for the period from their related acquisition dates to the year ended December 31, 2005 is the following:

(in € millions)	**Year ended December 31, 2005**
Contribution in revenues	222
Contribution in profit from continuing operations before tax and net finance costs	15

In 2005 until their related acquisition dates, these acquisitions had revenue of €299 million and a loss before tax and net finance costs of €8 million.

(b) Main disposals

.

On February 28, 2005, Thomson transferred its tube production site at Anagni, Italy, to the Indian Group Videocon, a leader in consumer electronics in India, for a consideration of €10 and committed to recapitalize the sold company with €103 million in cash as of the transaction date and a further €85 million at the first anniversary date.

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On June 28, 2005, Thomson signed an agreement for the sale of its Tubes activities in China (Foshan and Dongguan sites), Mexico (Mexicali) and Poland (Piaseczno) as well as certain related research and development and sales, marketing and administrative functions, to the Indian group Videocon. Definitive agreement occurred on September 30, 2005. Thomson received a cash payment of €240 million for its Tubes activities and technology. Thomson has also invested €240 million in Videocon Industries, a company mainly active in oil and gas, consumer electronics products and home appliances. This investment was effected in the form of Global Depositary Receipt (GDR) listed on the Luxembourg Stock Exchange. The price is subject to adjustment clauses normal for this type of agreement. The shareholder agreement between Thomson and certain shareholders of Videocon Industries, signed on September 30, 2005, provides certain rights and obligations among the parties, for so long as Thomson holds at least 3% of the outstanding shares of Videocon Industries. Thomson may not transfer any shares until September 30, 2008, subject to certain exceptions, which are notably (i) Thomson may monetize or hedge the risk associated with the shares in accordance with customary market practice, or otherwise use the shares to support a financing, in each case so long as it retains title to the shares until September 30, 2008, (ii) Thomson may enter into lending arrangements with respect to these shares, and (iii) Thomson may sell up to 10% of its holding under various conditions. The total impact of this disposal was a consolidated loss in 2005 totaling €97 million.

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On June 30, 2005, Thomson entered into an agreement under which the Spanish glass group Rioglass will take over its glass cathode ray tubes glass activity, Videoglass, located at Bagneaux-sur-Loing in France. Rioglass will set up a glass-conversion activity for the automotive industry on the site. Rioglass is specialized in glass parts for the car and transport industries. The definitive agreement was entered into on December 23, 2005. Thomson is committed to certain future payments to Rioglass that have been recorded in Thomson consolidated financial statements. The total impact of this disposal was a consolidated loss in 2005 amounting to €89 million (see Note 12).

For all the disposals mentioned above, the carrying amounts of the net assets as of the date of disposal were as follows:

(in € millions)	**Carrying amount as of the date of disposal**
Net assets disposed of	
Property, plant and equipment	264
Intangible assets	1
Inventories	161
Trade receivables	169
Other assets	45
Bank and cash balances	225
Provisions	(77)
Trade payables	(200)
Financial liability	(12)
Other liabilities	(104)
Deferred tax liabilities	(4)
TOTAL NET ASSETS DISPOSED OF	**468**
Disposal consideration	
Cash consideration received	240
TOTAL DISPOSAL PRICE	**240**
Loss on share disposed of	(228)

(c) Other 2005 changes

As part of the transaction with TCL Multimedia regarding the creation of TTE, Thomson entered into an exchange option agreement which enables Thomson to exchange its 33% investment in TTE against 29.32% in TCL Multimedia, the new parent of TTE. The exchange occurred on August 10, 2005. After this exchange, TCL Multimedia owns 100% of TTE. This transaction was analyzed as an exchange without commercial substance and therefore accounted for at carrying value. As for the investment in TTE, the investment in TCL Multimedia remained accounted for under the equity method until November 3, 2006 as discussed above under (b) Main disposals in the paragraph Changes in 2006 . The investment in TCL Multimedia was initially subject to a full lock-up period until July 2007. After that date, Thomson would have been allowed, depending on various conditions, to sell between 25%

and 33% of its shares in 2007/2008 and between 25% and 33% of its shares in 2008/2009. After 2009, no lock-up clause was to remain. Pursuant to the agreement between Thomson and TCL Corporation in October 2006, these lock-up provisions have since been terminated, as described above under (b) main disposals in the paragraph Changes in 2006 .

7 Information by business segments and by geographic areas

Business segments

Since January 1, 2005, Thomson has implemented a simple and flexible organizational and management structure with three segments based on its Media & Entertainment (M&E) activities. The three segments are:

Technology: this segment develops and monetizes technology in the following areas:

- Licensing of patents and trademarks;
- Research;
- Silicon solutions: IC design, Tuners and remotes;
- Software & Technology Solutions: Security, Imaging and Networking Software Services.

Systems:

- Broadcast & Networks businesses;
- Access Products.

Services: this segment offers end-to-end management of services for our customers in the M&E industries in the following areas:

- DVD Services: DVD and DVD-ROM replication and distribution and VoD;
- Film Services: film printing and digital cinema;

-

Content Services: post production, archiving, media asset management;

-

Network Services: Out-of-home advertising, broadcast play-out and other related services outsourced by broadcasters.

The Group s remaining continuing but non-core activities including TCL manufacturing related activities are regrouped under Displays & Consumer Electronics Partnerships (referred to as Displays & CE Partnerships hereafter) segment.

Unallocated activities mainly comprising corporate functions are grouped under Corporate. Revenues to external customers generated by the Corporate segment corresponds to services billed to trading partners.

These segments are the basis on which the Group reports its primary segment information.

Geographical segments

The Group has five geographic segments, including France, rest of Europe, US, rest of Americas and Asia/Pacific.

The following comments are applicable to the three tables below:

-

the Technology, Systems and Services segments generate substantially all of their revenues respectively from royalties, sale of goods and sale of services;

-

the caption Profit (loss) from continuing operations before tax and net finance costs does not include intercompany items;

-

the captions Amortization of customer relationships and Other depreciation and amortization converted at average rate only relate to continuing operations and include amortization of customer advances (in other depreciation and amortization);

-

the caption Other non-cash expenses includes mainly net variation of provisions without cash impact;

-

the caption Profit (loss) from discontinued operations is split by segment based on the initial reporting segment: the loss from AVA and related activities is disclosed in Systems, the loss related to the display business in Displays & CE Partnerships and the loss from the optical business in the Technology segment;

-

the caption Other segment assets includes advances to suppliers and to customers;

-

the caption Total segment assets includes all operating assets used by a segment and consists principally of receivables, inventories, property, plant and equipment and goodwill, net of depreciation and provisions. Amounts include advances to suppliers and to customers. Segment assets do not include income tax assets;

-

the caption Unallocated assets includes mainly financial assets, current accounts with subsidiaries/associates, tax assets and assets available-for-sale;

-

the caption Unallocated liabilities includes mainly financial and tax liabilities and liabilities classified as held for sale;

-

the caption Capital employed is defined as being the aggregate of net tangible and intangible assets (excluding goodwill), operating working capital and other current assets and liabilities (with the exception of provisions including those related to employee benefits, tax, payables on acquisition of companies and payables to suppliers of fixed assets);

-

the caption Capital expenditures is before the net change in debt related to capital expenditure payables (in 2006, 2005 and 2004, amounting to €4 million, €(19) million, €(5) million respectively);

-

“Displays & CE partnerships” are run largely as a contract manufacturing operation for the benefit of other Group entities and third parties.

Information by business segment

(in € millions)	Technology	Systems	Services	Corporate	Displays & CE Partnerships(*)	Consolidation Adjustments	Total
				Year ended December 31, 2006			
Income statement items							
Revenues to external customers	547	2,684	2,489	27	107	-	**5,854**
Intersegment sales	32	21	1	110	25	(189)	**-**
Profit (loss) from continuing operations before tax and net finance costs	**289**	**132**	**160**	**(77)**	**(25)**	**-**	**479**
Out of which:							
Amortization of customer relationships	-	(25)	(30)	-	-	-	**(55)**
Other depreciation and amortization	(18)	(87)	(257)	(6)	(1)	-	**(369)**
Other non-cash expenses	3	(19)	(41)	(15)	6	-	**(66)**
Share of loss from associates	**-**	**-**	**-**	**-**	**(86)**	**-**	**(86)**
Loss from discontinued operations	**(7)**	**(114)**	**-**	**-**	**(17)**	**-**	**(138)**
Balance sheet items							
Assets							
Operating segment assets	195	1,188	1,783	45	57	-	**3,268**
Goodwill	25	644	1,045	-	-	-	**1,714**
Other segment assets	170	280	474	1,009	118	-	**2,051**
TOTAL SEGMENT ASSETS	**390**	**2,112**	**3,302**	**1,054**	**175**	**-**	**7,033**
Investments in associates	4	-	-	1	7	-	**12**
Unallocated assets							**1,073**
TOTAL CONSOLIDATED							**8,118**

ASSETS							
Liabilities							
Segment liabilities	319	951	749	482	437	-	**2,938**
Unallocated liabilities							**3,061**
TOTAL CONSOLIDATED LIABILITIES (WITHOUT EQUITY)							**5,999**
Other information							
Capital expenditure	(37)	(110)	(135)	(6)	(2)	-	**(290)**
Capital employed	80	560	1,426	(67)	9	-	**2,008**

(*)

Displays & CE Partnerships result includes all Genlis plant result in 2006. If the same treatment had been applied as of December 31, 2005, Displays & CE Partnerships and Systems results would have been respectively decreased and increased by €9 million.

(in € millions)	Technology	Systems	Services	Corporate	Displays & CE Partnerships	Consolidation Adjustments	Total
				Year ended December 31, 2005			
Income statement items							
Revenues to external customers	546	2,262	2,487	40	256	-	**5,591**
Intersegment sales	38	10	1	113	1	(163)	**-**
Profit (loss) from continuing operations before tax and net finance costs	**277**	**109**	**205**	**(79)**	**(122)**	**-**	**390**
Out of which:							
Amortization of customer relationships	-	(25)	(26)	-	-	-	**(51)**
Other depreciation and amortization	(13)	(59)	(300)	(4)	(15)	-	**(391)**
Other non-cash expenses	(3)	(47)	(25)	(26)	(43)	-	**(144)**
Share of loss from associates	**-**	**-**	**-**	**-**	**(82)**	**-**	**(82)**
Loss from discontinued operations	**(39)**	**(41)**	**-**	**-**	**(691)**	**-**	**(771)**
Balance sheet items							
Assets							
Operating segment assets	175	1,241	2,123	37	108	-	**3,684**
Goodwill	28	621	1,107	-	-	-	**1,756**
Other segment assets	130	465	460	818	127	-	**2,000**
TOTAL SEGMENT ASSETS	**333**	**2,327**	**3,690**	**855**	**235**	**-**	**7,440**
Investments in associates	4	3	-	-	197	-	**204**
Unallocated assets							**1,216**
TOTAL CONSOLIDATED ASSETS							**8,860**
Liabilities							
Segment liabilities	356	1,045	792	831	615	-	**3,639**
Unallocated liabilities							**3,005**
TOTAL CONSOLIDATED LIABILITIES (WITHOUT EQUITY)							**6,644**
Other information							

Capital expenditure	(23)	(95)	(138)	(8)	(11)	-	**(275)**
Capital employed	22	555	1,745	(50)	76	-	**2,348**

(in € millions)	**Technology**	**Systems**	**Services**	**Corporate**	**Displays & CE Partnerships[(*)]**	**Consolidation Adjustments**	**Total**
				Year ended December 31, 2004			
Income statement items							
Revenues to external customers	498	2,054	2,338	23	1,067	-	**5,980**
Intersegment sales	41	11	2	144	5	(203)	-
Profit (loss) from continuing operations before tax and net finance costs	**302**	**120**	**227**	**(75)**	**(111)**	**-**	**463**
Out of which:							
Amortization of customer relationships	-	-	(23)	-	-	-	**(23)**
Other depreciation and amortization	(4)	(55)	(271)	(15)	(28)	-	**(373)**
Other non-cash expenses	(4)	(59)	(22)	(46)	(70)	-	**(201)**
Share of loss from associates	**-**	**-**	**-**	**-**	**(20)**	**-**	**(20)**
Loss from discontinued operations	**(30)**	**21**	**-**	**-**	**(874)**	**-**	**(883)**
Balance sheet items							
Assets							
Operating segment assets	88	1,079	1,775	48	732	-	**3,722**
Goodwill	14	332	832	-	-	-	**1,178**
Other segment assets	132	386	461	1,536	286	-	**2,801**
TOTAL SEGMENT ASSETS	**234**	**1,797**	**3,068**	**1,584**	**1,018**	**-**	**7,701**
Investments in associates	5	3	-	-	252	-	**260**
Unallocated assets							**594**
TOTAL CONSOLIDATED ASSETS							**8,555**
Liabilities							
Segment liabilities	332	905	600	647	896	-	**3,380**
Unallocated liabilities							**2,682**

TOTAL CONSOLIDATED LIABILITIES (WITHOUT EQUITY)							**6,062**
Other information							
Capital expenditures	(5)	(69)	(156)	(25)	(23)	-	**(278)**
Capital employed	(99)	441	1,539	(31)	415	-	**2,265**

(*)

Includes the TV business up to the sale date, July 31, 2004 for €845 million in net sales corresponding to the first seven months.

Information by geographical area

(in € millions)	**France**	**Rest of Europe**	**US**	**Rest of Americas**	**Asia/ Pacific**	**Total**
December 31, 2006						
Revenues to external customers [(1)]	1,494	1,244	2,318	441	357	**5,854**
Profit from continuing operations before tax and net finance costs [(2)]	166	48	178	39	48	**479**
Segment assets	2,362	967	2,799	392	513	**7,033**
Capital expenditure	(92)	(65)	(104)	(10)	(19)	**(290)**
December 31, 2005						
Revenues to external customers [(1)]	1,313	1,098	2,483	402	295	**5,591**
Profit from continuing operations before tax and net finance costs [(2)]	189	95	38	29	39	**390**
Segment assets	1,905	1,157	3,522	410	446	**7,440**
Capital expenditure	(34)	(70)	(131)	(19)	(21)	**(275)**
December 31, 2004						
Revenues to external customers [(1)]	1,382	1,066	2,902	362	268	**5,980**
Profit from continuing operations before tax and net finance costs [(2)]	257	129	43	33	1	**463**
Segment assets	2,009	1,420	3,012	435	825	**7,701**
Capital expenditure	(40)	(82)	(121)	(25)	(10)	**(278)**

(1)

Net sales and profit from continuing operations are classified by the location of the business that invoices the customer.

(2)

The inter-company profits included in the inventories of the buying geographic area are deducted from or added to the profit of the selling area.

8 Selling and administrative expenses and Other income (expense)

(in € millions)	**2006**	**2005**	**2004**
Selling and marketing expenses	(289)	(268)	(321)
General and administrative expenses	(385)	(370)	(332)
Selling and administrative expenses	**(674)**	**(638)**	**(653)**
Other income (expense) [(1)]	**52**	**(96)**	**(69)**

(1)

The line “Other income (expense)” includes:

(a) For 2006:

.

Restructuring expenses of €116 million (see Note 28), notably French manufacturing plants in Displays & CE Partnerships amounting to €72 million together with other restructuring in the Services segment and €25 million of costs related to the French TV manufacturing activity for TCL Multimedia, including a loss in respect of the renegotiation of the subcontract manufacturing agreement.

.

US medical benefit curtailment gain for €167 million mostly credited to the Displays & CE Partnerships segment (see Note 27.2)

.

Gain on disposal of land and buildings of €25 million, notably relating to Systems and Services.

(b) For 2005:

.

Restructuring expenses of €49 million (see Note 28)

.

Long-lived asset write-offs of €16 million. In 2005, Thomson has assessed that the carrying values of certain non-current assets related to its Angers plant were above their recoverable value and therefore recognized a €10 million charge.

(c) For 2004:

.

Goodwill impairment charges of €12 million, relating to (i) the Services segment for €5 million and (ii) the Display and CE partnership activities for €7 million.

.

Restructuring expenses of €68 million (see Note 28).

.

Long-lived asset write-offs of €9 million.

9 Research and development expenses

(in € millions)	**2006**	**2005**	**2004**
Research and development expenses gross	(346)	(282)	(212)
Capitalized development projects	88	65	21
Amortization of research and development intangible assets (*)	(36)	(22)	(18)
Subsidies	15	12	8
Research and development expenses net	**(279)**	**(227)**	**(201)**

(*)

A part of amortization expenses is recorded in Cost of sales .

10 Net finance costs

(in € millions)	**2006**	**2005**	**2004**
Interest income	19	30	52
Interest expense (1)	(108)	(108)	(54)
Interest (expense) income, net (2)	**(89)**	**(78)**	**(2)**
Financial component of pension plan expenses	(33)	(29)	(35)
Other financial charges	(5)	(7)	(21)
Exchange profit (loss) (3)	9	(22)	21
Change in fair value on financial instrument (loss)	(11)	(8)	-
Change in fair value of the SLP US$ convertible debt (4)	4	94	-
Other (5)	(75)	8	9
Other financial (expense) income, net	**(111)**	**36**	**(26)**
TOTAL FINANCE COSTS NET	**(200)**	**(42)**	**(28)**

(1)

From January 1, 2005 under IAS 32 the option components of our convertible bonds are split out and accounted for separately and the effective interest rate is used to calculate the interest expense. The IFRS impact for our convertible bonds compared to the accounting treatment under French GAAP (use of nominal rate) is an additional interest charge of €9 million and €36 million for 2006 and 2005 respectively.

(2)

Prepaid bank fees on debt issuances are included, according to IAS 32 and 39 applied as from January 1, 2005 in accordance with the effective interest rate on debt. From 2005, prepaid bank fees are classified in Interest expense

instead of Other financial charges (2004 classification) because of the effective interest rate method.

(3)

Including a €2 million exchange gain related to the embedded derivative of the SLP U.S.$ convertible debt in 2006 compared to a €11 million of exchange loss in 2005.

(4)

The SLP convertible bond contains an embedded derivative which is accounted for separately from the debt component of the bond. The change in fair value of the option is reflected in Finance costs – net for the amount mentioned under this caption.

(5)

Includes €(70) million comprising the loss on disposal of a portion of the Group's shares in TCL Multimedia, the resulting mark-to-market of remaining shares classified as available-for-sale financial asset (see Note 17) and the charge accounted by the Group in counterpart of the release of the TCL Multimedia lock-up clause (see Note 15).

11 Income tax

Income tax expense is summarized below:

(in € millions)	**2006**	**2005**	**2004**
Current income tax			
France	(19)	(8)	(21)
Foreign	(40)	(34)	(70)
TOTAL CURRENT INCOME TAX	**(59)**	**(42)**	**(91)**
Deferred income tax			
France	54	51	(78)
Foreign	5	(77)	76
TOTAL DEFERRED INCOME TAX	**59**	**(26)**	**(2)**
TOTAL INCOME TAX EXPENSE ON CONTINUING OPERATIONS	**-**	**(68)**	**(93)**

In 2006, the Group's total income tax expense on continuing operations, including both current and deferred taxes, amounted to zero compared to €68 million in 2005.

The Group's current tax charge amounted to €59 million in 2006, compared with €42 million in 2005. This tax charge is notably the result of current taxes due in the Netherlands, the United States (Screenvision joint-venture), Australia, Mexico and Canada, as well as withholding taxes on income earned by our Licensing division, which, because of the existing tax losses, cannot be credited against taxes payable in the United States, and are partially credited against taxes payable in France, and therefore are booked as an income tax charge. In 2005, the current income tax charge amounted to €8 million in France (reflecting withholding taxes) and €34 million abroad, mainly in the United Kingdom, Mexico, Australia, Canada and the Netherlands.

In 2006, Thomson recorded a net deferred tax income of €59 million primarily due to recognition of additional tax assets in France notably because of the end of the Japanese withholding tax on patents income in future years.

Pursuant to the provisions of the French Tax Code (Article 209 quinquies) and in accordance with a tax agreement from the French Tax Authorities dated November 6, 2002, Thomson SA filed a worldwide consolidated tax return (hereafter referred to as the Regime) from 2001 to the end of 2005 on which tax agreement ceased and has not been renewed.

This Regime provided that the basis for income tax computation of the parent company includes the taxable result of French and foreign entities owned at more than 50% (the Foreign Entities). Within certain limits, the French Tax Code allowed for the reduction of the taxable income of profitable companies by offsetting taxable losses of other entities. Also French income tax payable, as determined by the method described above, allowed for the application of foreign taxes due in local jurisdictions and related to foreign entities owned at more than 50%, to be applied as a credit to income taxes due in France.

In 2005, Thomson recorded a net deferred tax charge of €26 million, mainly due to a partial recognition of deferred tax assets in respect of Thomson's French losses due to the disposal of Displays taking into consideration the anticipated profits of the Telecom and Licensing businesses for €51 million, and the derecognition of €77 million of deferred tax assets in the United States reflecting lower than previously anticipated profitability in that country.

In 2004, the current income tax charge amounted to €21 million in France (withholding taxes on licensing revenue) and €70 million abroad, of which the U.K. accounts for €17 million, Mexico for €10 million, Australia for €8 million and Netherlands for €7 million.

In 2004, Thomson booked a net deferred tax liability of €2 million. The recognition of deferred tax assets in respect of Thomson's US operations amounted for €83 million. A €57 million allowance on deferred tax assets was booked in France because of the anticipated impact of the Loi de Finance 2005 which reduces the capital gains tax rates and also removes the ability of Thomson to offset capital losses (as opposed to current income losses) against applicable long-term revenues (notably Licensing revenues) as from January 1, 2006.

(a) Analysis of the difference between the theoretical and effective income tax rates

The following table shows reconciliation from the theoretical income tax expense – using the French corporate tax rate of 33.33% as at December 31, 2006, December 31, 2005 and at December 31, 2004 – to the reported tax expense. The reconciling items are described below:

(in € millions)	**2006**	**2005**	**2004**
Consolidated net income/(loss)	**55**	**(573)**	**(561)**
Discontinued Operations	(138)	(771)	(883)
Income tax	-	(68)	(93)
Share of loss from associates	(86)	(82)	(20)
PRE-TAX ACCOUNTING INCOME ON CONTINUING OPERATIONS	**279**	**348**	**435**
Theoretical income tax using the statutory rate	**(93)**	**(116)**	**(145)**
Change in unrecognized deferred tax assets (1)	85	(6)	70
Tax credits	-	26	-
Effect of difference in tax rates (2)	16	47	30
Permanent differences	(2)	8	-
Withholding taxes not recovered (3)	(15)	(30)	(35)
Other, net (4)	9	3	(13)
Effective income tax on continuing operations	**-**	**(68)**	**(93)**
Pre-tax accounting income on continuing operations	**279**	**348**	**435**
Effective tax rate	**-**	**20%**	**21%**

(1)

In 2006, net change in unrecognized deferred tax assets relates primarily to the recognition of net deferred tax income of €54 million in France notably due to the end of the Japanese withholding tax in future years. In 2005, change in unrecognized deferred tax assets relates primarily to a €(77) million write-off on the US perimeter offset by €51 million recognition of deferred tax assets in France. In 2004, change in unrecognized deferred tax assets relates primarily to €83 million recognition of deferred tax assets in the US.

(2)

In 2006 and 2005, this amount comprises respectively to €11 million and €41 million related to licensing revenue taxed at a reduced rate in France (15% instead of 33.33%). In 2004, it comprises €23 million related to licensing revenue (taxed at 19% instead of 33.33%).

(3)

Withholding tax not recovered relates to withholding tax paid on licensing revenues not refunded through current income tax in France and in the USA.

(4)

In 2004, this amount comprises tax regularization on previous year in Italy and in United Kingdom.

(b) Analysis of variations of deferred tax assets and liabilities

(in € millions)	**Deferred tax assets**	**Deferred tax liabilities**	**Total, net deferred tax assets**
At January 1, 2004	**317**	**(63)**	**254**
Changes impacting 2004 result	(93)	91	(2)
Other movement (*)	77	(65)	12
Year ended December 31, 2004	**301**	**(37)**	**264**
Changes impacting 2005 result	35	(61)	(26)
Other movement (*)	43	(64)	(21)
Year ended December 31, 2005	**379**	**(162)**	**217**
Changes impacting 2006 result	30	29	59
Other movement (*)	(12)	(10)	(22)
Year ended December 31, 2006	**397**	**(143)**	**254**

(*)

In 2006, this caption corresponds mainly to change in scope (€(1) million) and currency translation adjustments (€(13) million). In 2005, this caption corresponds mainly to change in scope (€(48) million) and currency translation adjustments (€ +24 million). In 2004, this caption corresponds mainly to change in scope (€ +11 million), currency translation adjustments (€(18) million) and changes impacting 2004 discontinued activities (€ +12 million).

(c) Analysis of tax position by major temporary differences and unused tax losses and credits

(in € millions)	**2006**	**2005**	**2004**
Tax effect of tax loss carry-forwards	**1,316**	**1,038**	**865**
Foreign tax credit related to the Regime [1]	**-**	**-**	**233**
Tax effect of temporary differences related to:			
Property, plant and equipment	(1)	28	100
Intangible assets	(103)	(80)	(26)
Investments and other non current assets	4	(6)	1
Inventories	9	4	6
Receivables and other current assets	(21)	(17)	8
Borrowings	20	22	7
Retirement benefit obligations	94	215	186
Restructuring provisions	14	13	22
Other provisions	57	71	34
Other liabilities	90	84	50
TOTAL DEFERRED TAX ON TEMPORARY DIFFERENCES	**163**	**334**	**388**
Deferred tax assets/(liabilities) before netting	**1,479**	**1,372**	**1,486**
Valuation allowances on deferred tax assets	(1,225)	(1,155)	(1,222)
Net deferred tax assets/(liabilities)	**254**	**217**	**264**

(1)

Foreign tax credits are comprised of corporate taxes paid outside France and deductible from the Regime future income tax payable. As the Regime was not renewed in 2006, all those credits expired.

(d) Expiration of the tax loss carry forward

(in € millions)	
2007	43
2008	14
2009	14
2010	146
2011	149
2012 and thereafter	3,582
TOTAL	**3,948**

12 Discontinued operations

For changes in the scope of discontinued operations between 2005 and 2006, see Note 5 above.

(a) Discontinued operations linked to the exit of Tubes and Display businesses

On February 28, 2005, Thomson transferred its tube production site at Anagni, Italy, to the Indian Group, Videocon for a consideration of €10 and committed to recapitalize the sold company with €103 million in cash as of the transaction date and up to a further €85 million one year after.

On June 30, 2005, Thomson entered into an agreement under which the Spanish glass group Rioglass would take over its glass cathode ray tubes glass activity, Videoglass, situated at Bagneaux-sur-Loing in France to set up a glass-conversion activity for the automotive industry on the site. Rioglass is specialized in glass parts for the car and transport industries.

On December 23, 2005 Thomson sold the glass plant for €1 and committed to certain payments to Rioglass linked to the reconversion of the Bagneaux site. Consequently, the total consolidated loss from the disposal of Videoglass in 2005 amounted to €89 million.

On June 28, 2005, Thomson signed an agreement for the sale of its Tubes activities in China (Foshan and Dongguan sites), Mexico (Mexicali) and Poland (Piaseczno) as well as some related research and development and sales, marketing and administrative functions, to the Indian group Videocon.

The definitive agreement was signed on September 30, 2005. Thomson received a cash payment of €240 million for its Tubes activities and technology and reinvested a similar amount in shares of Videocon entities (see Note 17).

In December 2005, Thomson shut down its component plant TTCF situated in Gray.

In the first quarter of 2006, Thomson agreed to transfer to a German Company its remaining optical technology assets and people. As a result, Thomson recorded under discontinued operations the results related to its optical business net of the estimated cost of exit and as held for sale all the assets and liabilities related to these operations in the Group balance sheet as of December 31, 2005. The respective loss from operations of discontinued optical business amounted to €34 million in 2005 and €28 million in 2004.

In the second half of 2006, a small facility in Brazil and some financial assets from the Tubes business have been sold.

(b) Discontinued operations linked to the exit of the Audio-Video and Accessories business

On December 12, 2005 Thomson announced its decision to sell its Audio/Video, Accessories and consumer marketing and sales activities (referred to as AVA business hereafter). As of December 31, 2006, these operations continue to meet the criteria for being classified as discontinued as events and circumstances extended the period to complete the sale beyond one year. The related assets and liabilities are presented as held for sale. The remaining retail businesses in Europe linked to the AVA business including the retail distribution of decoders are expected to be part of the disposal.

We have assessed that we meet the criteria of IFRS 5 allowing us to extend the one year period for the following reasons by geographical area: in Europe, we were imposed un-expected further conditions and actions have been taken accordingly; in the U.S. the change in the scope has made longer than planned the sale process of remaining assets and all necessary actions to ensure a sale in 2007 at a reasonable price have been undertaken.

On December 21, 2006, Thomson signed an agreement for the disposal of its accessories business in the U.S. outside of Europe with Audiovox Corporation. The closing of the transaction was finalized on January 29, 2007.

The results of these discontinued operations are as follows:

(in € millions)	Year ended December 31, 2006			Year ended December 31, 2005			Year ended December 31, 2004		
	Results related to the displays and optical businesses	**Results related to the AVA business**	**Total**	**Results related to the displays and optical businesses**	**Results related to the AVA business**	**Total**	**Results related to the displays and optical businesses**	**Results related to the AVA business**	**Total**
Revenues	10	845	855	586	901	1,487	1,089	944	2,033
Cost of sales	(9)	(744)	(753)	(696)	(741)	(1,437)	(1,071)	(749)	(1,820)
Gross Margin	**1**	**101**	**102**	**(110)**	**160**	**50**	**18**	**195**	**213**
Expenses other than impairment of assets	(14)	(216)	(230)	(569)	(193)	(762)	(290)	(168)	(458)
Loss on impairment of assets	-	-	-	(10)	-	(10)	(595)	-	(595)
Loss from operations before tax and finance cost	**(13)**	**(115)**	**(128)**	**(689)**	**(33)**	**(722)**	**(867)**	**27**	**(840)**
Net interest expense [1]	(1)	1	-	(10)	(3)	(13)	(19)	(4)	(23)
Other financial expense	(3)	(4)	(7)	(24)	(7)	(31)	(30)	(1)	(31)
Income tax	-	(3)	(3)	(2)	(3)	(5)	16	(3)	13
Minority interests	-	-	-	-	-	-	(2)	-	(2)
Profit (loss) for the year from discontinued operations	**(17)**	**(121)**	**(138)**	**(725)**	**(46)**	**(771)**	**(902)**	**19**	**(883)**

(1)

Consisting of interest expense of €1 million less interest income of €1 million, interest expense of €15 million less interest income of €2 million, and interest expense of €24 million less interest income of €1 million for the periods ending December 31, 2006, 2005 and 2004 respectively.

The assets and liabilities attributable to the operations discontinued and not yet sold as of December 31, 2006 and as of December 31, 2005 have been classified as held for sale in the Group balance sheet and presented separately from other assets.

The major classes of assets and liabilities comprising the activity classified as held for sale are as follows:

(in € millions)	**Year ended December 31, 2006**	**Year ended December 31, 2005**		
	Assets and liabilities related to the AVA business	**Assets and liabilities related to the displays and optical businesses [1]**	**Assets and liabilities related to the AVA business**	**Total**
Goodwill and intangible assets	39	-	44	**44**
Property, Plant and Equipment	17	-	12	**12**
Other assets	5	-	10	**10**
Inventories	103	-	119	**119**
Accounts receivable and other receivables [2]	100	12	172	**184**
TOTAL ASSETS CLASSIFIED AS HELD FOR SALE	**264**	**12**	**357**	**369**
Provisions and Restructuring	30	35	28	**63**
Borrowings	6	-	3	**3**
Accounts payable and other liabilities	196	22	382	**404**
TOTAL LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	**232**	**57**	**413**	**470**

(1)

The optical business has been sold in the first quarter of 2006.

(2)

In line with the exit strategy for the AVA business Thomson sold €35 million trade receivables without recourse in 2006.

13 Property, plant and equipment

(in € millions)	**Land**	**Buildings**	**Machinery & Equipment**	**Other Tangible Assets** [(1)]	**Total**
At January 1, 2004					
Cost	77	578	2,870	343	3,868
Accumulated depreciation	(1)	(225)	(1,902)	(87)	(2,215)
NET AMOUNT	**76**	**353**	**968**	**256**	**1,653**
2004					
Opening net amount	76	353	968	256	1,653
Exchange differences	(2)	(5)	(30)	(9)	(46)
Acquisition of subsidiaries [(2)]	7	8	154	6	175
Additions	-	5	109	192	306
Disposals	(1)	-	(13)	(7)	(21)
Disposal of subsidiaries	(10)	(32)	(43)	(19)	(104)
Depreciation charge	-	(23)	(242)	(15)	(280)
Impairment loss	(3)	(121)	(338)	(112)	(574)
Other	(9)	(6)	65	(108)	(58)
Closing net amount	**58**	**179**	**630**	**184**	**1,051**
At December 31, 2004					
Cost	62	383	2,039	330	2,814
Accumulated depreciation	(4)	(204)	(1,409)	(146)	(1,763)
NET AMOUNT	**58**	**179**	**630**	**184**	**1,051**
2005					
Opening net amount	58	179	630	184	1,051
Exchange differences	6	16	74	22	118
Acquisition of subsidiaries [(2)]	-	1	3	7	11
Additions	-	3	88	149	240
Disposals	(4)	(8)	(2)	(1)	(15)
Disposal of subsidiaries	(11)	(31)	(153)	(69)	(264)
Depreciation charge	-	(11)	(166)	(31)	(208)
Impairment loss	15	(29)	(50)	4	(60)
Reclassification as held for sale	-	(1)	(8)	(3)	(12)
Other	(13)	23	136	(121)	25

Closing net amount	**51**	**142**	**552**	**141**	**886**
At December 31, 2005					
Cost	53	223	1,149	288	1,713
Accumulated depreciation	(2)	(81)	(597)	(147)	(827)
NET AMOUNT	**51**	**142**	**552**	**141**	**886**
2006					
Opening net amount	51	142	552	141	886
Exchange differences	(3)	(8)	(37)	(9)	(57)
Acquisition of subsidiaries [(2)]	8	23	30	-	61
Additions	-	2	92	81	175
Disposals	(18)	(24)	(3)	(6)	(51)
Disposal of subsidiaries	-	(1)	-	-	(1)
Depreciation charge	-	(11)	(152)	(20)	(183)
Impairment loss	-	-	(1)	-	(1)
Reclassification as held for sale	-	(2)	(3)	(1)	(6)
Other	-	9	49	(68)	(10)
Closing net amount	**38**	**130**	**527**	**118**	**813**
At December 31, 2006					
Cost	43	218	1,240	230	1,731
Accumulated depreciation	(5)	(88)	(713)	(112)	(918)
NET AMOUNT	**38**	**130**	**527**	**118**	**813**

(1)

Includes tangible assets in progress.

(2)

This line item includes the impact of the acquisitions of the year as disclosed in Note 6 and the impact of purchase price allocations of previous year acquisitions (impact of definitive allocation of the purchase price).

14 Goodwill and other intangible assets

(in € millions)	**Patents and trademarks**	**Customer relationships**	**Other intangibles [2]**	**Total intangible assets**	**Goodwill**
At January 1, 2004					
Cost	495	396	177	1,068	1,100
Accumulated amortization and impairment	(98)	(54)	(123)	(275)	-
NET AMOUNT	**397**	**342**	**54**	**793**	**1,100**
2004					
Opening net amount	397	342	54	793	1,100
Exchange differences	(24)	(35)	(3)	(62)	(74)
Acquisition of subsidiary[1]	4	188	3	195	308
Disposal of subsidiary	-	-	(2)	(2)	(7)
Additions	13	3	52	68	-
Amortization charge	(12)	(35)	(31)	(78)	-
Impairment loss	-	-	-	-	(12)
Other	(3)	-	13	10	(137)
Closing net amount	**375**	**463**	**86**	**924**	**1,178**
At December 31, 2004					
Cost	480	545	233	1,258	1,190
Accumulated amortization and impairment	(105)	(82)	(147)	(334)	(12)
NET AMOUNT	**375**	**463**	**86**	**924**	**1,178**
2005					
Impact of first application of IAS 32/39 [3]	-	-	-	-	*8*
Opening net amount	375	463	86	924	1,186
Exchange differences	48	71	7	126	145
Acquisition of subsidiary [1]	27	76	50	153	431
Additions	23	-	81	104	-
Amortization charge	(25)	(52)	(48)	(125)	-
Reclassification as held for sale	(25)	(2)	(8)	(35)	(9)
Other	(5)	2	6	3	3
Closing net amount	**418**	**558**	**174**	**1,150**	**1,756**

At December 31, 2005					
Cost	557	706	342	1,605	1,761
Accumulated amortization and impairment	(139)	(148)	(168)	(455)	(5)
NET AMOUNT	**418**	**558**	**174**	**1,150**	**1,756**
2006					
Opening net amount	418	558	174	1,150	1,756
Exchange differences	(33)	(47)	(7)	(87)	(111)
Acquisition of subsidiary (1)	-	-	39	39	72
Additions	13	-	112	125	-
Amortization charge	(19)	(54)	(75)	(148)	-
Reclassification as held for sale	1	-	(2)	(1)	-
Other	(4)	-	(3)	(7)	(3)
Closing net amount	**376**	**457**	**238**	**1,071**	**1,714**
At December 31, 2006					
Cost	522	644	440	1,606	1,719
Accumulated amortization and impairment	(146)	(187)	(202)	(535)	(5)
NET AMOUNT	**376**	**457**	**238**	**1,071**	**1,714**

(1)

This line item includes the impact of the acquisitions of the year as disclosed in Note 6 and the impact of purchase price allocations of previous year acquisitions (impact of definitive allocation of the purchase price).

(2)

Includes capitalized development projects, software acquired or developed and acquired technologies on a standalone basis or as part of a business combination.

(3)

Commitment to purchase minority interests.

Patents, trademarks and customer relationships

For acquisitions, Thomson carries out a purchase price allocation, including an assessment of the value of intangible assets. For material amounts, Thomson relies on independent appraisals to determine the fair value of intangible assets. With respect to customer relationships, the valuation methodology used is generally based on the attributable discounted future cash flows expected to be generated by the existing customers portfolio at the acquisition date. With respect to trademarks, the valuation methodology used is based on the royalty relief method which could reasonably be paid by third-party licensees on similar trademarks.

Patents, trademarks and customer relationships consist mainly of:

·

trademarks of Technicolor® (€171 million at December 31, 2006), Grass Valley® (€34 million at December 31, 2006), RCA® (€49 million at December 31, 2006) and THOMSON®;

·

customer relationships of Technicolor (€145 million with a remaining amortization period of 10 years), HNS (€125 million with a remaining amortization period of around 5 years), PDSC (€52 million), Premier Retail Network (€47 million), Screenvision Europe (€17 million), Southern Star Duplitek (€24 million) and Vidfilm (€26 million).

Impairment of goodwill and trademarks

Impairment tests of goodwill are carried out based on groups of Cash-Generating Units (referred to as goodwill reporting units thereafter). Thomson identified six goodwill reporting units that are tested annually for impairment. All the goodwill reporting units except for the Technology unit, represent a level below the business segment of the Group, which is the lowest level at which the goodwill is monitored by the Executive Committee for management purposes:

·

in the Services segment, 3 goodwill reporting units were identified: DVD Services, Film & Content Services and Network Services;

·

in the Systems segment, 2 goodwill reporting units were identified: Access Products and Broadcast & Networks;

·

the Technology segment is considered as a single goodwill reporting unit.

Trademarks are considered to have indefinite useful lives. Consequently, they are tested annually for impairment. For the purpose of this test, trademarks are tested on a stand-alone basis by calculating their fair value. The values of

Technicolor and Grass Valley trademarks have been assessed based on a royalty relief method. Under this approach, the estimated value of the trademark is the present value of the royalties saved by the Group. As mentioned above, this method is commonly used to estimate the fair value of trade names.

In order to perform the annual impairment test, the Group uses the following assumptions to determine the recoverable amount of the reporting units:

	Services			**Systems**	
	DVD Services	**Film & Content Services**	**Network Services**	**Access Products**	**Broadcast & Networks**
Method used to determine the recoverable amount	Value in use & Royalty relief method for trademark	Value in use & Royalty relief method for trademark	Value in use	Value in use	Value in use & Royalty relief method for trademark
Description of key assumptions	Budget and cash flow projections, trademark royalty rate	Budget and cash flow projections, trademark royalty rate	Budget and cash flow projections	Budget & cash flow projections	Budget and cash flow projections, trademark royalty rate
Period for projected future cash flows	5 years	5 years	5 years	5 years	5 years
Growth rate used to extrapolate cash flow projections beyond projection period	0%	3%	3%	3%	3%
Post-tax discount rate applied					
- As of September 30, 2006 [1]	9.0%	9.0%	9.0%	9.5%	9.0%
- As of September 30, 2005	9.5%	9.5%	9.5%	9.5%	9.5%
- As of December 31, 2004	9.5%	9.5%	9.5%	9.5%	9.5%

(1)

The corresponding pre-tax discount rates are within a range from 11.2% to 11.6%.

The following table provides the allocation of the significant amounts of goodwill and trademarks to each significant goodwill reporting unit:

(in € millions)	**Services**			**Systems**		**Technology**		
	DVD Services	**Film & Content Services**	**Network Services**	**Access Products**	**Broadcast & Networks**	**Software & Technology Solutions**	**Other**	**Total**
As of December 31, 2006								
Gross amount of goodwill	500	295	255	289	355	25	-	**1,719**
Impairment	-	-	(5)	-	-	-	-	**(5)**
Net amount of goodwill	500	295	250	289	355	25	-	**1,714**
Net amount of trademarks [(1)]	178		-	-	34	-	55	**267**
As of December 31, 2005								
Gross amount of goodwill	544	314	254	294	327	28	-	**1,761**
Impairment	-	-	(5)	-	-	-	-	**(5)**
Net amount of goodwill	544	314	249	294	327	28	-	**1,756**
Net amount of trademarks[(1)]	197		- -		38	-	58	**293**
As of December 31, 2004								
Gross amount of goodwill	474	292	71	122	206	-	25	**1,190**
Impairment	-	-	(5)	-	-	-	(7)	**(12)**
Net amount of goodwill	474	292	66	122	206	-	18	**1,178**
Net amount of trademarks [(1)]	165		-	-	33	-	45	**243**

(1)

Trademarks included in each unit are:

Technicolor® (used both in the DVD Services and in the Film & Content Services reporting units) and Moving Picture Company® (MPC) included in the Film & Content Services reporting unit;

Grass Valley® for Broadcast & Networks reporting unit;

– THOMSON® and the license to use the RCA® trademark in Other.

In 2006 and 2005, no goodwill impairment has been recognized.

In 2004, the following goodwill impairments have been recognized:

- €7 million of goodwill write-off relating to the Chinese company responsible for Thomson then-TV activity at the date of transfer of its TV assets to TTE because goodwill was not part of transferable assets to TTE;

- €5 million of goodwill impairment relating to the Screenvision Europe activity within Services, in Other income (expense).

15 Investments in associates

	Period ended December 31,		
(in € millions)	**2006**	**2005**	**2004**
Beginning of the year	**204**	**260**	**11**
Acquisition of associates	-	-	279
Share of (loss)/profit before impairment on associates	(56)	(19)	(2)
Impairment charge on associates [3]	(30)	(63)	(18)
Exchange differences	2	30	(10)
Disposal [1]	(37)	-	-
Other equity movements [2]	(71)	(4)	-
End of the year	**12**	**204**	**260**

(1)

On November 3, 2006 Thomson reduced its holding in TCL Multimedia to 753,888,095 shares, representing 19.32% of TCL Multimedia s share capital, with the sale of 390,294,000 shares in a private placement. Following this sale, Thomson s interest in TCL Multimedia is therefore no longer accounted for under the equity method as Thomson has no significant influence anymore. As of December 31, 2006, the remaining interest is classified as available-for-sale financial asset.

(2)

Following the transaction above, the investment in associate has been reclassified to available-for-sale financial asset.

(3)

For the years ended December 31, 2006, 2005 and 2004, Thomson s management determined that triggering events occurred because the market value of its investment in TTE then TCL Corporation was below its carrying amount. Thomson s management has therefore assessed the recoverable amount of this investment. In order to determine the value in use of its investment in TCL Multimedia, Thomson calculated, based on information provided by the management of TCL Multimedia, the present value of future cash flows expected to be derived from the business of TCL Multimedia through its current business. As a result of these impairment tests, Thomson recognized €30 million, €63 million and €18 million impairment losses for the years ended December 31, 2006, 2005 and 2004, respectively, on the carrying amount of its investment in TCL Multimedia. These losses have been included in the caption "Share of profit (loss) from associates".

Details of investments in associates are summarized below:

	% Interest	Group's share of associates' net assets	Group's share of associates' profit (loss)

(in € millions)	**December 31, 2006**	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**	**2006**	**2005**	**2004**
TCL-Thomson Electronics/TCL Multimedia(*)	-	-	193	249	(86)	(82)	(20)
CTE El Athir (Tunisia)	30%	4	4	3	-	-	-
EasyPlug, SAS. (France)	50%	3	3	3	-	-	-
Techfund Capital Europe (France)	20%	4	2	3	-	-	-
Others (less than €2 million individually)		1	2	2	-	-	-
TOTAL		**12**	**204**	**260**	**(86)**	**(82)**	**(20)**

(*)

On July 31, 2004, Thomson and TCL combined their respective TV assets in a new company, TCL-Thomson Electronics (TTE), of which Thomson held 33% and TCL. 67%. Thomson contributed its industrial TV assets. Thomson had neither control nor joint control of TTE and accounted for its investment in TTE under the equity method from July 31, 2004. The TV activity before July 31, 2004 was presented under full consolidation method. Thomson accounted for the contribution of its TV business as a disposal and booked the 33% interest in TTE as an acquisition. Pursuant to the transaction, Thomson exchanged on August 10, 2005 its 33% investment in TTE for 29.32% (1,144,182,095 shares) of TCL Multimedia (formerly TCL International) listed in Hong Kong. Because the exchange of shares had no commercial substance, the new shares received were substituted to the previous shares without impact on the financial statements at exchange date. As stated above, following the loss of our significant influence over TCL Multimedia, Thomson ceased to account for its investment in TCL Multimedia using the equity method on November 3, 2006. This investment is accounted since this date as an available-for-sale financial asset.

16 Interest in joint ventures

Screenvision Europe and Screenvision US represent the main interests of the Group in jointly controlled entities. The joint ventures contribution to the Group s balance sheet and income statement items is summarized below:

	Period ended December 31,		
(in €millions)	**2006**	**2005**	**2004**
Balance Sheet			
Total current assets	72	71	59
Total non-current assets	92	102	85
Total current liabilities	84	89	75
Total non-current liabilities	11	12	10
Income Statement			
Revenues	111	97	84
Expenses	(106)	(93)	(83)
CONTRIBUTION TO THE GROUP'S INCOME FOR THE PERIOD	**5**	**4**	**1**

17 Investments and financial assets available-for-sale

(in € millions)	**Listed securities**	**Unlisted securities[1]**	**Total**
January 1, 2004	**14**	**111**	**125**
Acquisitions	24	22	46
Disposals	-	(50)	(50)
Exchange differences	(2)	(6)	(8)
December 31, 2004	**36**	**77**	**113**
Impact of first application of IAS 32 and 39 [2]	26	-	26
January 1, 2005	**62**	**77**	**139**
Acquisitions [3]	241	25	266
Disposals [4]	(59)	-	(59)
Fair value adjustment [5]	(9)	-	(9)
Impairment recorded through income	(3)	(8)	(11)
Exchange differences	3	12	15
December 31, 2005	**235**	**106**	**341**
Acquisitions	2	7	9
Disposals [4]	(34)	(80)	(114)
Fair value adjustment [5]	(2)	-	(2)
Impairment recorded through income [7]	(31)	-	(31)
Exchange differences	(1)	(7)	(8)
Other [6]	78	(7)	71
December 31, 2006 [8]	**247**	**19**	**266**

(1)

This caption includes minority positions in unquoted companies strategic to the Group, including a preference share investment totalling €84 million at December 31, 2005. These shares were sold in 2006.

(2)

Available-for-sale assets are recognized at fair value with any change in value recorded in shareholders equity. When there is a decrease in value assessed as other than temporary the Group recognizes an impairment charge in income statement.

(3)

In 2005, mainly acquisition of Videocon Industries shares in relation with the exit of our Tubes activity.

(4)

In 2006, this amount includes the disposal of part of the Group's investments in Videocon. In 2005, this amount includes €(15) million of 2004 fair value adjustments recognized on investments that have been sold.

(5)

This caption includes fair value adjustments recorded directly in equity for €(2) million in 2006 and €(9) million in 2005.

(6)

This mainly relates to 19.32% TCL Multimedia shares held now by Thomson classified as available-for-sale in 2006. The shares were previously accounted for under the equity method before the sale in November 2006 of a portion of the Group s shares in TCL Multimedia (see Note 15).

(7)

As of December 31, 2006 Thomson assessed that the loss in value of its investment in TCL Multimedia is other than temporary and recognized an impairment charge amounting to €31 million, being the difference between the carrying value and the market value of this investment at closing date.

(8)

As of December 2006, the amount of investments available-for-sale consists of the investment in Videocon securities for €206 million and the TCL Multimedia shares for €40 million.

18 Contract advances

(in € millions)	**2006**	**2005**	**2004**
Technicolor			
Net amount of customer advances at year-end	124	163	164
Of which amortization booked during the year	*(74)*	*(131)*	*(134)*
Screenvision (US and Europe)			
Net amount of customer advances at year-end	5	10	15
Of which amortization booked during the year	*(20)*	*(16)*	*(10)*
NET CONTRACT ADVANCES AT YEAR-END	**129**	**173**	**179**

19 Inventories

(in € millions)	**2006**	**2005**	**2004**
Raw materials	127	129	149
Work in progress	48	45	52
Finished goods and purchased goods for resale	235	209	428
Gross value	**410**	**383**	**629**
Less: valuation allowance	(44)	(50)	(61)
TOTAL	**366**	**333**	**568**

As of December 31, 2006, 2005 and 2004 the accumulated depreciation includes respectively €3 million, nil and €11 million of write-down recognized within the framework of restructuring plans.

The European "Restriction of Hazardous Substances (RoHS)" Directive places restrictions on lead and certain other substances contained in specified electronic products, including some of the Group products sold in the European Union after June 2006 (within the Systems segment). The cost of compliance with this directive for some products mainly made by Grass Valley cannot be precisely determined before the member states issue their final implementation guidance and the Commission publishes its final ruling on some remaining requests for exemptions currently under review. At December 31, 2006, manufacturers are awaiting decisions from the Commission to several Requests for Exemptions filed in 2005 and 2006 including notably the general category of Last Time Buy (LTB) components or specialized LTB assemblies. The Group anticipates a satisfactory resolution to the LTB issue. Failure to obtain these exemptions would mean limited additional cost of redesign for Grass Valley as most products have already been redesigned in compliance with RoHS.

20 Trade accounts and notes receivable

(in € millions)	**2006**	**2005**	**2004**

Trade accounts and notes receivable [1]	1,054	1,351	1,222
Less: valuation allowance	(36)	(36)	(42)
TOTAL	**1,018**	**1,315**	**1,180**

(1)

Including advances to suppliers. Sales deductions and price protection allowances are deducted from trade accounts and notes receivables gross for €153 million, €143 million and €230 million as of December 31, 2006, 2005 and 2004, respectively (see also Note 34).

21 Other current and non-current assets

(in € millions)	**2006**	**2005**	**2004**
Financial non-current assets	21	25	39
Income tax receivables	74	79	52
Prepayments on employees benefits (1)	1	65	43
Other non-current assets	14	13	2
TOTAL OTHER NON-CURRENT ASSETS	**110**	**182**	**136**
Value added tax receivable (2)	70	133	100
Other taxes receivable	10	8	8
Subsidies	12	11	19
Prepaid expenses	67	56	44
Other current assets (3)	376	436	445
TOTAL OTHER CURRENT ASSETS	**535**	**644**	**616**

(1)

The decrease is related to US medical benefit curtailment gain (see Note 27)

(2)

The value added tax receivable corresponds to the consolidated value added tax position generated in the normal course of the Thomson group's business.

(3)

As of December 31, 2006, 2005 and 2004, other current assets include:

(i) €121 million, €113 million and €110 million of accrued royalty income, respectively;

(ii) €2 million, €7 million and nil of prepaid employee benefits obligation, respectively;

(iii) nil in 2006 and 2005 and €114 million of hedge reevaluation suspense asset in 2004. From 2005, this asset is now accounted for as a derivative financial instrument and presented separately (see Note 24).

22 Cash and cash equivalents

(in € millions)	**2006**	**2005**	**2004**
Cash	346	376	517
Cash equivalents	965	620	1,331
TOTAL	**1,311**	**996**	**1,848**

Of which restricted cash deposits [(1)]	*56*	*66*	*55*

(1)

Mainly deposits of €55 million, €50 million and €55 million at December 31, 2006, 2005 and 2004 respectively by TCE Television Taiwan which guarantee loans to Thomson for the same amounts and at December 31, 2005 had €16 million deposit by Thomson Media Services France guaranteeing an external purchase commitment of certain minority shareholders for the same amount.

The average interest rate on short-term bank deposits was 2.73% in 2006 (2005: 2.31%; 2004: 1.41%); these deposits generally have a maturity of less than 1 month.

23 Shareholders equity

(a) Common stock and additional paid-in capital

As of December 31, 2004, 12,471,369 BASA at €1 each had been subscribed by shareholders. Each BASA gave the right to subscribe one Thomson share at €16 from March 1, 2006 to June 30, 2006. During the conversion period from March 1 to June 30, 2006 a total number of 563,264 bonds were converted into new Thomson shares.

The Board Meeting of July 25, 2006 decided subsequently to increase the capital stock by 2,112,240 euros to 1,027,017,360 euros and additional paid in capital increased by 6,899,984 euros. At December 31, 2006 the share capital comprised 273,871,296 shares with a nominal value of €3.75 each.

	December 31, 2006	**December 31, 2005**	**December 31, 2004**
Outstanding number of shares	273,871,296	273,308,032	273,308,032
Nominal value in €	3.75	3.75	3.75
Thomson share capital in €	**1,027,017,360**	**1,024,905,120**	**1,024,905,120**

(b) Treasury shares

	December 31, 2006	**December 31, 2005**	**December 31, 2004**
Number of Treasury shares at opening	*16,356,540*	*3,082,766*	*6,373,070*
Movements of the period			
purchased in the period	-	*15,626,318*	*4,157,010*
delivered	*(3,712,087)*	*(2,352,544)*	*(141,838)*
cancelled	-	-	*(7,305,476)*
Number of Treasury shares held at closing	*12,644,453*	*16,356,540*	*3,082,766*
Shares sold but not yet delivered (Inventel and Cirpack)(*)	*(2,568,400)*	*(3,623,828)*	-
Number of Treasury shares held adjusted with shares to be delivered	**10,076,053**	**12,732,712**	**3,082,766**
Treasury stock at cost (€)	**225,305,043**	**238,982,228**	**55,307,575**

(*)

Adjusted to potential additional shares.

These treasury shares were acquired pursuant to the following transactions as authorized by the Board of Directors:

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pursuant to the authorization of May 7, 2004 and May 10, 2005, the Group repurchased 15,626,318 treasury shares during 2005 for a cost of €292 million;

.

a total of 2,351,648 shares was delivered on March 29, 2005 as part of the consideration paid for the acquisition of Inventel (see Note 6) and 896 shares were delivered in December 2005 due to conversions of convertible bonds. In 2006, 3,712,087 shares were delivered out of which 821,917 shares as part of the consideration paid for Canopus, 1,349,606 for Cirpack and 1,315,221 for Inventel.

(c) Subordinated perpetual notes

On September 26, 2005, Thomson issued deeply subordinated notes in a nominal amount of €500 million. Because of their perpetual and subordinated nature and the optional nature of the coupon, the notes are recorded under IFRS in shareholder's equity for the net value received of €492 million (issue price less offering discount and fees). The notes can be called at Thomson's option at par on September 25, 2015 and at each interest payment date thereafter. The notes have an annual fixed coupon of 5.75% and a yield to the call date of 5.85%. If not called the interest rate starting September 25, 2015 is the 3-month EURIBOR deposit rate plus 3.625%. On any interest payment date, payment of interest is optional only if Thomson did not declare and pay a dividend at the most recent General Meeting of its shareholders or before the due date of interest and it has not bought back shares in the previous six months.

The notes have a specific provision if there is a change of control and Thomson s senior rating is reduced by one full notch by either Moody s or S&P such that the reduction results in a rating below investment grade. Thomson can redeem the bond at no penalty; however should Thomson decide not to redeem, an additional margin of 5% is added to the interest rate of the coupon.

The coupon adjustment clause after 10 years does not in itself imply any particular intention on the part of Thomson at that time.

(d) Dividends and distributions

In 2005 and 2004, Thomson paid to its shareholders a total dividend of €77 million and €71 million respectively, representing €0.285 and €0.26 per share respectively. In 2006, Thomson distributed to its shareholders €78 million representing €0.30 per share. The 2006 payment of the distribution of a portion of additional paid in capital eliminated the option to defer the September dividend on the subordinated perpetual notes referred to above. A total amount of €29 million (of which €8 million related to 2005) have thus been paid on September 25, 2006 the annual dividend date. The entire amount was deducted from equity as of December 2006.

At Thomson's Board of Directors held on February 13, 2007 a motion was adopted to propose at the Annual Shareholders' Meeting to be held in May 2007 a distribution of €0.33 per share. The payment of the proposed distribution would eliminate the option to defer the next dividend on the subordinated perpetual notes referred to above. Of the dividend thereby payable, €8 million would be accounted in 2007 as an additional distribution in respect of the 2006 financial period.

(e) Minority interests

In 2005, the decrease of the minority interests is due mainly to the reclassification of minority interests into financial debt when Thomson grants a put on shares to minority interests.

In 2006, there is no significant change on minority interests.

(f) Net Equity Hedging Reserve

Gains and losses on hedging instruments accounted for as cash-flow hedges are recognized directly in equity. At January 1, 2005, €15 million was recognized; this amount was removed from equity during 2005 and included in the profit and loss during the period as the hedged transactions were recorded. At December 31, 2005, €4 million was recognized in equity and removed in 2006 from equity and included in 2006 profit and loss. At December 31, 2006 €2 million in losses on hedging instruments was recognized in equity.

24 Derivative financial instruments

The fair value of all derivative financial instruments is shown in the table below. Interest rate swap contracts are calculated by discounting the future cash flows. However, for complex swaps, the marked-to-market value was determined by independent financial institutions. The fair value of forward exchange contracts and currency swaps are computed by discounting the difference between the forward contract rate and the market forward rate and multiplying it by the nominal amount. The fair value of options is calculated using standard option pricing methods and verified with independent financial institutions.

(in € millions)	**December 31, 2006**		**December 31, 2005**		**January 1, 2005(*)**	
	Assets	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Interest-rate swaps – not designated as hedges (1)	2	-	1	-	-	-
Interest-rate swaps fair value hedges (1)	5	13	-	11	11	-
Equity options (Silver Lake bond conversion option)	-	38	-	46	-	122
TOTAL NON-CURRENT	**7**	**51**	**1**	**57**	**11**	**122**
Forward foreign exchange contracts- cash flow and fair value hedges	5	9	5	6	16	15
Forward foreign exchange contracts- not designated as hedges (2)	2	1	-	4	99	-
Currency options	1	-	2	-	-	-
Equity derivatives fair value hedges	-	-	-	-	-	19
Equity options	-	-	1	-	-	-
Other options (3)	-	-	1	-	-	-
TOTAL CURRENT	**8**	**10**	**9**	**10**	**115**	**34**
TOTAL	**15**	**61**	**10**	**67**	**126**	**156**

(*)

First Application of IAS 32 and 39 starting as from January 1, 2005.

(1)

The notional principal amount of the outstanding interest rate swap contracts at December 31, 2006 was €822 million all of which were long term (December 31, 2005: €1,257 million). At December 31, 2006, the fixed interest rates range from 4.13% to 6.47% (at December 31, 2005, from 2.12% to 6.11%) and the floating rates are based on $-LIBOR and £-LIBOR.

(2)

Hedges of debt and cash denominated in foreign currency; both the derivative and the debt/cash are marked to market and the foreign exchange gain or loss is recognized in income.

(3)

Option to purchase an equity stake in an unlisted company.

Credit risk on these financial derivative assets arises from the possibility that counterparties may not be able to meet their financial obligations to Thomson. The maximum risk is the marked to market carrying values shown in the table above, that is, €15 million at December 31, 2006, €10 million at December 31, 2005 and €126 million at January 1, 2005.

25 Borrowings

The tables below present information concerning Thomson s debt at December 31, 2006 compared to previous years. Because of the adoption of IAS 32 and 39 as from January 1, 2005 and in order to show comparable figures, the 2004 debt situation is that shown as of January 1, 2005, prepared under IFRS, rather than as of December 31, 2004 which was prepared under French GAAP.

25.1 Analysis by nature

(in € millions)	**December 31, 2006**	**December 31, 2005**	**January 1, 2005**
Debt due to financial institutions	2,116	1,046	783
Convertible/exchangeable bond (October 2000)	-	677	638
Convertible/exchangeable bond (March 2002)	12	12	604
Convertible/exchangeable bond (September 2004)	352	382	320
Bank overdrafts	111	123	29
Other financial debt (1)	61	81	177
Accrued interest	17	1	-
TOTAL	**2,669**	**2,322**	**2,551**
Total non-current	*1,393*	*858*	*1,540*
Total current	*1,276*	*1,464*	*1,011*

(1)

Includes minority interests having a put on Thomson which is classified as debt for an amount of €16 million as of December 31, 2006 (€36 million as of December 31, 2005).

25.2 Convertible bonds

(in € millions)	**Currency**	**Nominal amount issued**	**Original maturity**	**Yield to Maturity (%)**	**Effective rate (%)**	**Debt component outstanding at December 31, 2006** [(1)]	**Debt component outstanding at December 31, 2005** [(1)]
Convertible/exchangeable bond (October 2000)	EUR	812	2006	2.75%	7.09%	-	677
Convertible/exchangeable bond (March 2002)	EUR	600	2008	1.00%	7.49%	12	12
Convertible/exchangeable bond (September 2004)	US$	500	2010[(2)]	3.00%	5.70%	352	382

(1)

Excluding the option component.

(2)

The investor has a put from September 2008.

.

In October 2000, Thomson issued convertible/exchangeable bonds in an amount of €812 million. The bonds carried a 1% coupon and had a 2.75% yield to maturity. The initial exercise price was €72.67 which accreted to €79.71 at maturity. Thomson repurchased bonds in the open market in 2002 and 2004 after which the nominal amount outstanding was €611 million. The bonds were repaid in full on January 2, 2006 for an amount of €677 million including the accrued interest premium of €59 million and the final coupon of €6 million.

.

On March 12, 2002, Thomson issued convertible/exchangeable bonds in an amount of €600 million. Bondholders have the option from March 12, 2002 to convert one bond against one Thomson share (existing or new shares) at an exercise price of €40.50. The bonds were redeemable on January 1, 2005, at the option of the bondholders at par plus accrued interest. Of the original €600 million, €587 million were redeemed. Due to this early redemption the amount of the bonds outstanding as of December 31, 2006 was €13 million (of which the debt component in accordance with IFRS was €12 million).

.

On September 16, 2004, Thomson issued convertible/exchangeable subordinated bonds to Silver Lake Partners LLC in an amount of U.S.$500 million (cash flows of the bonds are denominated in a currency other than euro, Thomson’s functional currency). Bondholders have the option from the earlier of March 31, 2006, or the date Thomson publishes its audited financial results for 2005 or the date of certain other

exceptional events to convert or exchange any or all bonds held at an original conversion price of $21.66 per share. The conversion price is subject to adjustment notably for dividends. The current conversion price is $20.85. If exercised, the shares issued upon conversion or exchange are subject to certain sale restrictions. Any or all bonds are redeemable in cash plus accrued interest at the option of the holder from September 16, 2008, upon written notice to Thomson.

Under IAS 32, the conversion option and the debt component are recognized at fair value at inception. Since these bonds are denominated in U.S. dollars (and not in Thomson s functional currency) and convertible or redeemable into new or existing shares denominated in euros and/or redeemable in cash, the option component of the convertible bonds had to be accounted for separately as a derivative financial instrument rather than as equity. Subsequent changes in the fair value of the conversion option are charged to finance costs.

The value of the conversion option is accounted for within non current derivative financial instruments (€38 million as of December 31, 2006).

25.3 Debt due to financial institutions – Private Placement

Currency	Amount (€ millions)	Type of rate	Average Nominal rate	Average Effective rate
US$	612	Fixed	5.42%	5.50%
US$	190	Floating	5.55% (1)	5.57% (1)
GBP	51	Fixed	6.11%	6.14%
EUR	100	Fixed	3.65%	3.65%
TOTAL	**953**			

(1)

Rate as of December 31, 2006.

In June and December 2003, Thomson issued senior notes in a total amount of U.S.$406 million and GBP 34 million respectively (€308 million and €51 million respectively at the December 31, 2006 exchange rate) that were sold privately to institutional investors in the U.S. and U.K. In May 2006, Thomson issued an additional U.S.$450 million in senior notes (€342 million at the December 31, 2006 exchange rate) and in October and December 2006 Thomson issued U.S.$200 million (€152 million at the December 31, 2006 exchange rate) and €100 million respectively.

25.4 French commercial paper program

In June 2005 Thomson launched a French commercial paper program in order to increase its short term borrowing capacity. The program is rated A-3 by Standard & Poor's. At December 31, 2006 €634 million was outstanding under this program.

25.5 Main features of the Group's borrowings

(a) Maturity

(in € millions)	December 31, 2006	December 31, 2005	January 1, 2005
TOTAL CURRENT DEBT (LESS THAN ONE YEAR)	**1,276**	**1,464**	**1,011**
Between 1 and 3 years	123	21	817
Between 3 and 5 years	611	515	13
Over 5 years	659	322	710
TOTAL NON-CURRENT DEBT	**1,393**	**858**	**1,540**
TOTAL DEBT	**2,669**	**2,322**	**2,551**

The convertible bond issued to Silver Lake Partners LLC (accounted for €352 million at December 31, 2006) has a maturity of September 16, 2010 (and is shown above as being due between 3 and 5 years) but the investor has a put from September 16, 2008.

(b) Interest rate characteristics

The table below presents the periods for which the interest rates on Thomson's debt are fixed for its debt with maturity greater than one year, the debt under one year being considered as floating.

(in € millions)	Amounts at December 31, 2006 with interest rate fixed for the following periods			
	Floating rate debt (interest fixed for less than 1 year)	**1 year to 5 years**	**Greater than 5 years**	**Total**
Total borrowings	1,518	643	508	2,669
Effect of interest rate swaps	519	(149)	(370)	-
NET	**2,037**	**494**	**138**	**2,669**

(c) Effective interest rates at year-end

	December 31, 2006	**December 31, 2005**	**January 1, 2005**
All borrowings (including impact of interest rate swaps):	4.60%	4.89%	5.51%
Of which convertible bonds:	*5.76%*	*6.60%*	*6.81%*

(d) Carrying amounts and fair value of borrowings (see Note 26 (f))

(e) Analysis of borrowing by currency

(in € millions)	**December 31, 2006**	**December 31, 2005**	**January 1, 2005**
Euro	1,258	1,398	1,463
US Dollar	1,228	830	837
Other currencies	183	94	251
TOTAL DEBT	**2,669**	**2,322**	**2,551**

(f) Undrawn credit lines

(in € millions)	**December 31, 2006**	**December 31, 2005**	**January 1, 2005**
Undrawn, committed lines expiring in greater than one year	1,350	1,750	1,750
Undrawn, uncommitted lines[(1)]	838	781	767
Securitization agreement in North America	-	-	147

(1)

The amount shown is the full amount less borrowings only under the line; the uncommitted lines were also used at each year-end for non-borrowing purposes (foreign exchange settlement risk, documentary credits, customs guarantees, etc.)

The Group has a committed credit line of €1.75 billion, maturing in June 2010/2011, of which €1.35 billion was undrawn at December 31, 2006; the undrawn amount however serves as back-up to the Group's French commercial paper program of which €634 million was outstanding as of December 31, 2006. Thomson cancelled its receivables sales agreement (securitization program) in North America in March 2005.

(g) Financial covenants

Two of Thomson s financing agreements have covenants pertaining to the Group s consolidated financial situation: the senior notes issued privately to institutional investors in a total amount of €953 million and a €36 million Mexican capital lease. These financings are subject to two financial covenants: (i) maintenance of a minimum ratio of profit from continuing operations and before tax, finance and restructuring costs to net interest expense of 3 to 1 and (ii) a maximum ratio of net debt to net worth of 1 to 1. Following renegotiation in June 2005, the Group's €1.75 billion credit facility is no longer subject to financial covenants.

As of December 31, 2006, Thomson complies with all of these covenants.

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26 Financial instruments and market related exposures

As indicated in Note 3, the Group uses financial instruments to manage its exposure to currency and interest rate and commodity price risks incurred in the normal course of business.

(a) Foreign currency exposure and commodity exposure

The nominal value of the Group s forward operations and options outstanding as of December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Forward exchange contracts (including currency swaps)			
Euro	486	1,229	1,873
Pound sterling	165	144	183
Hong Kong dollar	21	31	22
Mexican pesos	15	12	33
Singapore dollar	28	40	26
US dollar	652	599	577
Polish zloty	7	106	88
Other currencies	64	42	35
TOTAL FORWARD CURRENCY PURCHASES	**1,438**	**2,203**	**2,837**
Forward metal purchases	**2**	**-**	**8**
Euro	(823)	(813)	(785)
Canadian dollar	(37)	(19)	(52)
Pound sterling	(125)	(58)	(152)
Japanese yen	(85)	(25)	(29)
US dollar	(311)	(1,099)	(1,561)
Polish zloty(*)	(20)	(120)	N/A
Other currencies	(40)	(75)	(159)
TOTAL FORWARD CURRENCY SALES	**(1,441)**	**(2,209)**	**(2,738)**
Forward metal sales	**(9)**	**-**	**-**
Currency options contracts purchased			
Put US dollar/Call Euro	76	75	-
Call US dollar/Put Euro	91	-	-
TOTAL	**167**	**75**	**-**
Deferred hedging gains (losses) related to forecast transactions	**(2)**	**3**	**(2)**

(*)

Included in Other currencies in 2004

With regard to the foreign currency intercompany financial receivables and payables, the corporate treasury department enters into currency swaps primarily in euros/U.S. dollars. At the December 31, 2006 exchange rate, there was a mark to market currency gain on these swaps of €1 million. This amount is recognized in the Group's finance costs as an exchange gain and offsets the exchange loss on the elimination of the intercompany receivables and payables. In the balance sheet the mark to market value of these swaps is recognized in Financial Derivatives and offsets the decrease in the Euro value of the foreign currency intercompany receivables and payables.

(b) Sensitivity to currency movements

Because of the Group s significant activities in the US and in other countries whose currencies are linked to the US dollar, the Group s main currency exposure is the fluctuation of the US dollar against the euro. The table below shows the impact of a 1% increase in the U.S. dollar versus the euro on the Group s sales, on its Profit from continuing operations before tax and net finance costs and on the currency translation adjustment component of equity.

(in € millions)	**Transaction**	**Translation**	**Total**
Sales	4	28	32
Profit from continuing operations before tax and net finance costs	2	2	4
Equity Impact (Cumulative translation adjustment)	N/A	N/A	12

(c) Interest rate exposure

The Group’s interest rate exposure is presented as follows, by maturity:

						At December 31, 2006	
(in € millions)	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
Cash and cash equivalents – floating rate	1,311	-	-	-	-	-	**1,311**
Financial debt:							
Floating rate	1,276	25	22	21	23	151	**1,518**
Fixed rate	-	19	57	422	145	508	**1,151**
Interest rate swaps, from floating to fixed[(1)]	-	-	-	-	-	-	**-**
Interest rate swaps, from fixed to floating[(1)]	-	-	-	73	76	370	**519**
Caps, fixed rate	-	-	304	-	-	-	**304**

(1)

U.S. dollar/euro = 0.75945.

						At December 31, 2005	
(in € millions)	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**	**Total**
Cash and cash equivalents – floating rate	996	-	-	-	-	-	**996**
Financial debt:							
Floating rate	1,464	3	6	-	54	322	**1,849**
Fixed rate	-	-	13	1	459	-	**473**
Interest rate swaps, from floating to fixed[(2)]	-	-	-	337	-	-	**337**

Interest rate swaps, from fixed to floating[2]	528	-	-	-	81	311	**920**
Caps, fixed rate	-	-	-	337	-	-	**337**

(2)

U.S. dollar/euro = 0.84331.

						At December 31, 2004	
(in € millions)	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**	**Total**
Cash and cash equivalents floating rate	1,848	-	-	-	-	-	**1,848**
Financial debt:							
Floating rate	904	-	160	-	-	44	**1,108**
Fixed rate	-	664	3	13	-	713	**1,393**
Interest rate swaps, from floating to fixed(3)	-	-	-	-	-	-	**-**
Interest rate swaps, from fixed to floating(3)	-	-	-	-	-	195	**195**
Caps, fixed rate	37	-	-	-	-	-	**37**

(3)

U.S. dollar/euro = 0.733030.

Interest related to interest rate swaps contracted by the Group is as follows:

(in € millions)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Interest received:			
Fixed rate	43	17	10
Floating rate	-	-	-
Interest paid:			
Fixed rate	-	-	-
Floating rate	(44)	(16)	(6)
NET INTEREST	**(1)**	**1**	**4**

In 2005 and 2006, the Group entered into several interest rate swap transactions to convert a portion of its U.S.$ debt from fixed to floating rate (3-month LIBOR):

.

U.S.$96 million with 2010 maturity;

.

U.S.$100 million with 2011 maturity; and

.

U.S.$110 million with 2013 maturity.

These swap transactions are accounted for as fair value hedges in accordance with IAS 39.

Moreover in 2005 the Group entered into U.S.$400 million of 3 year interest rate swaps (with January 2, 2006 start date), under which Thomson receives three month U.S.$ LIBOR and pays twelve month U.S.$ LIBOR in arrears with the latter being capped up to a knock-out interest rate which if reached cancels the cap until such time as interest rates drop below the knock-out rate. These interest rate swaps are marked-to-market and the gain or loss is recorded in finance costs. In 2006 there was a marked to market gain on these swaps of €1 million (compared to the marked to market value at December 31, 2005) which was taken in financial income.

The Group did not enter into any interest rate hedging operations in 2004.

In 2003, the Group entered into several interest rate swap transactions to convert a portion of its debt from fixed to floating rate (3-month LIBOR for U.S.$ debt, and 6-month GBP-LIBOR for GBP debt):

.

U.S.$118 million with 2015 maturity;

.

U.S.$82 million with 2013 maturity; and

.

GBP 34 million with 2013 maturity.

These swap transactions are accounted for as fair value hedges in accordance with IAS 39.

In 2002 Thomson bought an interest rate cap that provided that until 2005 Thomson would receive the difference between 3 month U.S.$ LIBOR and the cap rate on a nominal amount of U.S.$50 million if three month U.S.$ LIBOR is above the cap rate and less than the knock-out rate. This cap expired in August 2005. The cap had no impact on the Group s 2005 results as the cost of the cap had already been fully taken in finance costs over the period 2002-2004.

The average effective interest rates on the Group s consolidated debt are as follows:

	2006	2005	2004
Average interest rate on borrowings	4.25%	5.07%	2.74%
Average interest rate after interest rate hedging	4.26%	5.04%	2.60%
Average interest rate after currency swaps and interest rate hedging	4.30%	5.33%	2.21%

The average effective interest rate in 2006 on the Group s consolidated deposits was 2.73% (2.31% in 2005).

The percentage of the Group s debt at floating rates taking into account interest rate hedging operations is as shown below. The Group considers all debt with interest rates fixed for remaining periods of less than 1 year to be at floating rate.

(in € millions)	2006	2005	2004
Average debt	2,586	2,247	2,302
Percentage at floating rate at year-end	76%	82%	54%

The Group's average deposits in 2006 amounted to €915 million, 100% at floating rate. A one-point variation in interest rates, applied to the floating rate debt and deposits would have had an impact on the Group annual financial expenses of approximately €11 million.

(d) Equity instruments

At December 31, 2005, Thomson had an outstanding equity call option on a quoted investment as well as calls on Thomson shares. The calls for 538,000 Thomson shares were bought for a total premium of €0.03 million in March 2005 to cover outstanding stock options. The calls as well as the stock options have an exercise price of €55.90.

At December 31, 2004, Thomson had an outstanding equity forward sale and a call option on a quoted investment as well as puts on Thomson shares. The puts for 2,000,000 Thomson shares were sold in December 2004 in the over the counter market for a premium of €2 million. The puts had an exercise price of €18.75. The puts were sold in the framework of Thomson's share repurchase program. They expired unexercised in March, April and May 2005.

The marked to market value of the equity options on quoted investments mentioned above are given in the current portion of the table in Note 24 Derivative Financial Instruments.

(e) Financial counterparty risk

The financial instruments used by the Group to manage its interest rate and currency exposure are all undertaken with counterparts having an investment grade rating.

The percentage of outstanding foreign exchange operations by counterpart credit rating is as follows:

Foreign exchange forwards: Counterparty s rating (according to Standard & Poor s)	2006	2005	2004

A-1+	92.6%	95.6%	91.3%
A-1	6.4%	3.8%	2.0%
A-2	1.0%	0.6%	6.7%
TOTAL	**100%**	**100%**	**100%**

All significant cash deposits are maintained with rated financial institutions.

The table below gives the percentage of outstanding cash deposits by counterparty credit rating:

Cash deposit: Counterparty s rating (according to Standard & Poor s)	**2006**	**2005**	**2004**
A-1+	95.4%	77.9%	44.8%
A-1	1.4%	17.6%	6.2%
A-2	1.3%	2.4%	2.0%
A-3	0.1%	-	1.1%
BB+	-	0.4%	-
B	0.2%	0.1%	2.6%
Money Market funds	-	-	42.8%
Non rated financial institutions	1.6%	1.6%	0.5%
TOTAL	**100%**	**100%**	**100%**

Credit risk arises from the possibility that counterparties may not be able to perform their financial obligations to Thomson. The maximum credit risk exposure on the Group's cash, cash equivalents and marketable securities was €1,311 million at December 31, 2006. The Group minimizes this risk by limiting the deposits made with any single bank and by making deposits primarily with banks that have strong credit ratings or by investing in diversified, highly liquid money market funds as shown in the table above.

(f) Fair value of financial assets and liabilities

The fair value of all current assets and liabilities (trade accounts receivable and payable, short term loans and debt, cash and bank overdrafts) is considered to be equivalent to their net book value due to their short-term maturities.

The fair value of long-term debt, shown in the table below, is determined by estimating future cash flows on a borrowing-by-borrowing basis and discounting these future cash flows using the borrowing rates at year-end for similar types of borrowing arrangements.

For the fair value of available-for-sale assets see Note 17.

For the fair value of derivatives financial instruments see Note 24.

	December 31, 2006		**December 31, 2005**		**January 1, 2005**	
(in €millions)	**Net book value**	**Fair market value**	**Net book value**	**Fair market value**	**Net book value**	**Fair market value**
Non-current borrowings						
Convertible bonds	365	381	387	382	963	1,170
Other borrowings	1,028	1,013	471	450	577	585

27 Retirement benefit obligations

27.1 Summary of the benefits

(in € millions)	Pension plan benefits			Medical Post-retirement benefits			Total		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Provision for post-employment benefits									
Opening provision	**494**	**494**	**483**	**445**	**356**	**371**	**939**	**850**	**854**
Net Periodic Pension Cost	28	33	65	(200)[(1)]	24	20	(172)	57	85
Benefits paid	(69)	(56)	(55)	(17)	(17)	(15)	(86)	(73)	(70)
Change in perimeter[(2)]	6	(26)	(7)	-	-	-	6	(26)	(7)
Reclassification in held for sale[(3)]	1	(7)	-	-	-	-	1	(7)	-
Actuarial (gains) losses recognized in SORIE[(4)]	(17)	40	15	(60)	28	8	(77)	68	23
Exchange differences	(5)	16	(7)	(34)	54	(28)	(39)	70	(35)
CLOSING PROVISION	**438**	**494**	**494**	**134**	**445**	**356**	**572**[(*)]	**939**[(*)]	**850**[(*)]
Reimbursement right recognized as an asset									
Fair value at opening[(5)]				**65**	**43**	**43**	**65**	**43**	**43**
Net Periodic Pension Costs				(51)[(1)]	5	4	(51)	5	4
Actuarial gains/(losses) recognized in SORIE[(4)]				(8)	10	-	(8)	10	-
Benefits paid				(1)	-	-	(1)	-	-
Exchange differences				(4)	7	(4)	(4)	7	(4)
FAIR VALUE AT CLOSING[(5)]				**1**	**65**	**43**	**1**	**65**	**43**

(1)

In 2006, the Net Periodic Pension Cost includes the effects of the medical plan changes accounted for as a curtailment (see Note 27.2).

(2)

Change in perimeter in 2006 mainly relates to the acquisition of Canopus. In 2005, change in perimeter relates mainly to the disposal of the Tube business and the acquisition of Thales Broadcast & Multimedia.

(3)

See Note 11.

(4)

Statement of Recognized Income and Expense. As of December 31, 2006, 2005 and 2004, accumulated actuarial (gains) losses recognized in SORIE amount €(69) million, €58 million and €23 million, respectively.

(5)

These amounts are posted in other non-current assets.

(*)

Out of which current portion amounts to €67 million, €62 million and €65 million for December 31, 2006, 2005 and 2004, respectively.

(a) Defined contribution plans

For the defined-contribution plans, the Group pays contributions to independently administered funds. These plans guarantee employee benefits that are directly related to contributions paid. The pension costs of these plans, corresponding to the contributions paid, are charged in the income statement. The total contributions paid by Thomson amounted to €24 million in 2006 and 2005.

(b) Defined benefit plans

These plans mainly cover on the one hand pension benefits and retirement indemnities and on the other hand medical post-retirement benefits.

Pension benefits and retirements indemnities

The benefits are mainly based on employee s pensionable salary and length of service. These plans are either funded through independently administered pension funds or unfunded. Pension plans maintained by the Group are mainly the following:

- **within Nafta area**, the plans mainly consist in pension plans in the United States.

The employees of Thomson, Inc. are covered by a defined benefit pension plan, funded by a trust fund. Thomson, Inc. s funding policy is to contribute on an annual basis in an amount that is at least sufficient to meet the minimum requirements of the US Employee Retirement Income Security Act of 1974 (ERISA). Benefits are equal to a percentage of the plan member s earnings each year plus a guaranteed rate of return on earned benefits until retirement.

Technicolor mainly operates two defined benefit pension plans: a cash balance pension plan that covers substantially all non-union employees, funded through a trust fund, and an additional pension plan for executive employees, closed to new participants;

- **in Germany**, employees are covered by several vested non-funded pension plans. These plans mainly provide employees with retirement annuities and disability benefits;

- **in France**, the Group is legally required to pay lump sums to employees when they retire. The amounts paid are defined by the collective bargaining agreement in force and depend on years of service within the Group and employee s salary at retirement;

- **in other countries**, Thomson mainly maintains a dedicated pension plan in the UK, funded by a trust fund, which provides retirement annuity benefits.

Medical Post-retirement benefits

In the US, Thomson Inc provides to certain employees a post-retirement medical plan. Under this plan, employees are eligible for medical benefits if they retire at age 55 or older with at least 10 years of service in the main case. The plan also includes life insurance benefits. This plan is eligible to receive federal subsidies according to the US Medicare Prescription Drug Improvement and Modernization Act of 2003. Such plan is no longer available to newcomers since 2003.

On October 31, 2006 and consistent with many U.S. companies, Thomson has curtailed and eliminated certain post-retiree medical benefit to U.S. employees. This plan change mainly (i) eliminated benefit coverage for plan participants who are not yet 50 years old at January 1,2007, (ii) increased the retirees share of costs of coverage at January 1, 2007 and (iii) eliminated benefit coverage at age 65 and beyond, commencing January 1, 2008.

Under IFRS, these plan changes have been accounted for as a curtailment that is a reduction in future benefits obligation as well as future reimbursement right. In addition, all related unrecognized prior service gain or costs have been charged or credited to income.

The net resulting effect is a €167 million gain at average U.S.$/€ rate recorded in the income (which effect is shown in our balance sheet as a €211 million decrease of our obligation, a €51 million decrease of our reimbursement right and a decrease of unrecognized prior service cost of €7 million).

Reimbursement right recognized as an asset

Thomson recognized as a separate asset certain reimbursement rights in relation with its medical post-retirement benefits plan in the United States. These reimbursement rights result from federal subsidies to be received according to the US Medicare Prescription Drug Improvement and Modernization Act of 2003. As of December 31, 2006, 2005 and 2004, the carrying value of this asset amounts to €1 million, €65 million and €43 million, respectively and is posted in the caption “Other non-current asset”. The decrease of the carrying value of this asset in 2006 is mainly due to the impact of the medical plan change for €51 million.

(c) Multi-employer plan

One of Thomson subsidiaries in Netherlands participates in the multi-employer defined benefits plan Metalelektro . As the information about the dividing up of contributions between each member of the plan is not available, Thomson accounts for this plan as a defined contribution plan.

The Thomson Japanese subsidiary Canopus, acquired in 2006, participates in a multi-employer defined benefit plan. Thomson accounts for this plan as a defined benefit plan.

27.2 Elements of the income statement

	Pension benefits			Medical post-retirement benefits			Total		
(in € millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Service cost	(20)	(19)	(24)	(2)	(4)	(4)	(22)	(23)	(28)
Financial component of benefits[1]	(29)	(32)	(35)	(17)	(22)	(22)	(46)	(54)	(57)
Expected return on plan assets[1]	11	13	12	-	-	-	11	13	12
Amortization of prior service costs	-	-	(7)	1	2	2	1	2	(5)
Effect of curtailment	10	5	(8)	218[2]	-	4	228	5	(4)
Effect of settlement	-	-	(3)	-	-	-	-	-	(3)
TOTAL NET PERIODIC PENSION COST	**(28)**	**(33)**	**(65)**	**200**	**(24)**	**(20)**	**172**	**(57)**	**(85)**
Service costs on reimbursement rights				-	2	2	-	2	2
Financial components on reimbursement rights[1]				-	3	2	-	3	2
Effect of curtailment on reimbursement right				(51)[2]	-	-	(51)	-	-
NET PENSION COSTS	**(28)**	**(33)**	**(65)**	**149**	**(19)**	**(16)**	**121**	**(52)**	**(81)**

(1)

Out of which €33 million, €29 million and €35 million, net, are posted in Income from continuing Operation (in Finance costs – net) in 2006, 2005 and 2004 respectively.

(2)

Effect of curtailment relates to the medical post-retirement benefits plan changes which occurred in 2006 and is described above. In 2006, the net gain of the medical plan changes amounts to €167 million and is mainly related to the Group's former customer-electronics business and as such mostly credited to Displays & CE Partnerships segment. The net curtailment gain is broken down into a €218 million gain on the liability (made of €211 million of obligation decrease and €7 million of unrecognized prior service cost) and a €51 million loss on the reimbursement right recognized as a non-current asset.

Financial component of pension plan expenses, expected return on assets, financial components on any reimbursement rights are recognized through financial income.

27.3 Analysis of the change in benefit obligation

(in € millions)	Pension benefits			Medical post-retirement benefits			Total		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Change in benefit obligation									
Benefit obligation at opening	**(681)**	**(668)**	**(699)**	**(431)**	**(342)**	**(353)**	**(1,112)**	**(1,010)**	**(1,052)**
Current service cost	(20)	(19)	(24)	(2)	(4)	(4)	(22)	(23)	(28)
Financial component	(29)	(32)	(35)	(17)	(22)	(22)	(46)	(54)	(57)
Amendment	-	-	(5)	-	-	-	-	-	(5)
Business combination/disposal [1]	(6)	26	9	-	-	-	(6)	26	9
Plan participants contribution	(1)	(1)	(1)	(8)	(7)	-	(9)	(8)	(1)
Curtailment/settlement	36	49	47	211	-	3	247	49	50
Actuarial gain/(loss)	13	(41)	(21)	60	(28)	(8)	73	(69)	(29)
Benefits paid	46	39	45	25	24	15	71	63	60
Currency translation differences	16	(34)	16	32	(52)	27	48	(86)	43
Benefit obligation at closing [3]	**(626)**	**(681)**	**(668)**	**(130)**	**(431)**	**(342)**	**(756)**	**(1,112)**	**(1,010)**
Benefits obligation wholly or partly funded	*(272)*	*(294)*	*(270)*	-	-	-	*(272)*	*(294)*	*(270)*
Benefit obligation wholly unfunded	*(354)*	*(387)*	*(398)*	*(130)*	*(431)*	*(342)*	*(484)*	*(818)*	*(740)*
Change in plan assets									
Fair value at opening	**183**	**179**	**221**				**183**	**179**	**221**
Expected return on plan assets	11	13	12				11	13	12
Actuarial (gain)/loss	4	1	4				4	1	4
Employer contribution	65	26	16				65	26	16
Plan participant contribution	1	1	1				1	1	1
Curtailment/settlement	(26)	(47)	(60)				(26)	(47)	(60)
Business combination/disposal	-	-	(2)				-	-	(2)
Benefits paid	(41)	(9)	(6)				(41)	(9)	(6)
Currency translation differences	(10)	19	(7)				(10)	19	(7)
Fair value at closing [3]	**187**	**183**	**179**				**187**	**183**	**179**
Net amount recognized									
Funded status (I)	**(439)**	**(498)**	**(489)**	**(130)**	**(431)**	**(342)**	**(569)**	**(929)**	**(831)**
Unrecognized prior service cost (II) [3]	-	(3)	(5)	(4)	(14)	(14)	(4)	(17)	(19)
Reclassification as held for sale (see Note 12) (III)	1	7	-	-	-	-	1	7	-
	(438)	**(494)**	**(494)**	**(134)**	**(445)**	**(356)**	**(572)**	**(939)**	**(850)**

RETIREMENT BENEFIT OBLIGATIONS (I)+(II)+(III)[(2)]									
Reimbursement rights recognized as an asset [(4)]	-	-	-	1	65	43	1	65	43
NET PENSION ACCRUALS	**(438)**	**(494)**	**(494)**	**(133)**	**(380)**	**(313)**	**(571)**	**(874)**	**(807)**

(1)

In 2006, business combinations mainly relate to the acquisition of Canopus. In 2005, business combinations mainly related to the disposal of the Tubes business and the acquisition of Thales Broadcast & Multimedia.

(2)

As Thomson has adopted the revised IAS 19, all actuarial gains and losses are recognized in the SORIE, there are no more unrecognized actuarial gains or losses.

(3)

For NAFTA subsidiaries/associates (which include US, Canada and Mexico), the pension benefits obligations are €(180) million, €(221) million and €(208) million for 2006, 2005 and 2004 respectively (€108 million, €116 million and €126 million for plan assets). The medical post-retirement benefits obligations are €(130) million, €(431) million and €(342) million (nil for plan assets and €(4) million, €(14) million and €(14) million for unrecognized actuarial prior service cost).

For German subsidiaries, the pension benefit obligation and the net pension accrual are €(291) million, €(293) million and €(292) million for years ended December 31, 2006, 2005 and 2004 respectively.

(4)

Curtailment of the US medical benefit results in a reduction of the reimbursement right of €51 million.

Medical post-retirement benefits plans are wholly un-funded.

The Group expects to contribute €92 million to its defined benefit plans in 2007.

In 2006, the experience adjustment on the pension benefits obligation amounts to €3 million on the obligation and €4 million on the plan asset. For medical post-retirement benefits, the experience adjustment amounts to €33 million on the obligation.

27.4 Plan assets

When defined benefit plans are funded, mainly in the US, U.K. and Canada, the investment strategy of the benefit plans aims to match the investment portfolio to the membership profile. Asset performance is reviewed on a quarterly basis and the asset allocation strategy is reviewed on an annual basis.

The actual return on plan assets amounts to €15 million, €14 million and €16 million for the years ended 2006, 2005 and 2004 respectively.

Thomson pension plans weighted-average asset allocations by asset category are as follows:

	Allocation of plan assets			**Allocation of the fair value of plan assets**		
(in % and in € millions)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Equity securities	49%	55%	58%	92	101	104
Debt securities	51%	45%	39%	95	82	70
Other	-	-	3%	-	-	5
TOTAL	**100%**	**100%**	**100%**	**187**	**183**	**179**

27.5 Assumptions used in actuarial calculations

	Pension benefits			**Medical post-retirement benefits**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Discount rate	4.92%	4.44%	5.13%	5.72%	5.74%	6.00%
Expected return on plan assets	6.37%	6.38%	6.73%	-	-	-
Average long term rate of compensation increase	2.38%	3.11%	3.14%	3.77%	4.00%	4.00%

The long-term rates of return on plan assets have been determined for each plan in consideration of the investment policies, the expected return for each component of the investment portfolio and other local factors in the country of the plan.

After the medical plan changes occurred in 2006, the average assumption rate for the increase of the health care cost pre 65/ post 65 will be 6.75%/9% for 2007, 6%/nil for 2008, 5.25%/nil for 2009 and 5%/nil for 2010 and years thereafter.

The table below shows the sensitivity to change in healthcare costs of the medical post retirement benefit obligation and post retirement benefit expense at December 31, 2006 closing rate:

(in € millions)	**Sensitivity of assumptions 2006**
1% increase in healthcare costs	
Impact on medical post-retirement 2006 benefit expense	1
Impact on medical post-retirement benefit obligation as of December 31, 2006	5
1% reduction in healthcare costs	
Impact on medical post-retirement 2006 benefit expense	(1)
Impact on medical post-retirement benefit obligation as of December 31, 2006	(7)

28 Provisions for restructuring and other charges

28.1 Restructuring provisions

(in € millions)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Provision at the beginning of the year	**54**	**76**	**95**
Current year expense [1]	154	130	820
Release of provision [1]	(31)	(17)	(19)
Usage during the period	(82)	(92)	(195)
Currency translation adjustment	(3)	7	(3)
Reclassification to held for sale	-	(34)	-
Change in held for sale provision	29	-	-
Other movements [3]	(1)	(16)	(622)
Provision at the end of the year	**120**	**54**	**76**
Of which current	*72*	*45*	*76*
Of which non-current	*48*	*9*	-

(1)

Restructuring costs, net of release have been posted as follows in the consolidated income statements:

(in € millions)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Income from continuing operations			
Other income (expense) [2]	(116)	(49)	(68)
Income from discontinued operations	(7)	(64)	(733)
TOTAL RESTRUCTURING EXPENSES	**(123)**	**(113)**	**(801)**

(2)

Out of which:

(in € millions)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Termination costs	*(113)*	*(48)*	*(59)*
Impairment of assets	*(3)*	*(1)*	*(9)*
TOTAL RESTRUCTURING EXPENSES	**(116)**	**(49)**	**(68)**

(3)

Write-downs are reclassified against assets prior to disposals. The impact of this reclassification for years ended December 31, 2006, 2005 and 2004 amounts to €4 million, €3 million and €601 million respectively.

28.2 Other provisions

(in € millions)	**Warranty**	**Other**	**Total**[2]
As of January 1, 2004	**79**	**87**	**166**
Current period additional provision	84	76	160
Release of provision	(3)	(28)	(31)
Usage during the period	(93)	(43)	(136)
Currency translation adjustments and other	(17)	(6)	(23)
As of December 31, 2004	**50**	**86**	**136**
Current period additional provision	64	272	336
Release of provision	(5)	(103)	(108)
Usage during the period	(63)	(25)	(88)
Currency translation adjustments and other	(8)	(6)	(14)
As of December 31, 2005	**38**	**224**	**262**
Current period additional provision	81	73	154
Release of provision	(5)	(18)	(23)
Usage during the period[1]	(71)	(132)	(203)
Currency translation adjustments and other	(3)	6	3
As of December 31, 2006	**40**	**153**	**193**

(1)

For the year ended December 31, 2006, the usage within other is mainly related to the contractual payments made by Thomson for the sale of its Displays plant in Anagni.

(2)

Split of total provisions between non-current and current:

.

as of December 31, 2006, €107 million classified as non-current and €86 million as current;

.

as of December 31, 2005, €185 million classified as non-current and €77 million as current;

.

as of December 31, 2004, €55 million classified as non-current and €81 million as current.

29 Share based payments

Stock option plans and dilutive potential ordinary shares

On September 21, 2006, the Board of Directors approved a new stock option plan.

As of December 31, 2006, the total number of outstanding stock options is 15,355,215 made of 8,306,315 options granted to employees and directors, 2,914,690 options for retention agreements in connection with acquisition of subsidiaries and the formation of TTE and 4,134,210 options granted to employees and directors that are not in the scope of IFRS 2 because of IFRS 1 exemptions. The detail of options is disclosed thereafter.

In accordance with the transition provisions of IFRS 2 Share Based Payments , IFRS 2 has been applied to all grants made after November 7, 2002 that were unvested as of January 1, 2005. As a result, only the following stock option plans are accounted for under IFRS 2, with the other plans being disclosed later in this section:

	Plan 3	**Plan 4**	**Plan 5**	**Plan 6**
Type of plan	Subscription options	Purchase options	Purchase options	Subscription options
Day of grant	September 22, 2004	April 19, 2005	December 8, 2005	September 21, 2006
Number of options granted	3,599,900	719,400	1,993,175	2,739,740
Initial number of beneficiaries	574	93	390	485
Vesting date	50% as of September 22, 2007 50% as of September 22, 2008	50% as of April 19, 2008 50% as of April 19, 2009	50% as of December 8, 2008 50% as of December 8, 2009	50% as of September 21, 2008 50% as of September 21, 2009
Option life	10 years	10 years	10 years	8 years
Exercise price	16.00 euros	20.82 euros	17.73 euros	12.49 euros
Estimated fair values of the options granted	6.53 euros	7.32 euros	6.25 euros	3.22 euros
Number of options cancelled since the beginning of the plan	527,000	39,700	150,200	29,000
Number of options outstanding	3,072,900	679,700	1,842,975	2,710,740

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

	Number of share options	**Weighted Average Exercise Price** *(in €)*
Outstanding as of January 1, 2004	**-**	**-**
Granted	3,599,900	16.0
Forfeited	(10,590)	16.0
Outstanding as of December 31, 2004 (with an average remaining contractual life of 10 years)	**3,589,310**	**16.0**
Out of which exercisable	-	-
Granted	2,712,575	18.6
Forfeited	(204,920)	16.5
Outstanding as of December 31, 2005 (with an average remaining contractual life of 9 years)	**6,096,965**	**17.1** (ranging from €16 to €20.82)
Out of which exercisable	-	-
Granted	2,739,740	12.5
Forfeited	(530,390)	16.5

Outstanding as of December 31, 2006 (with an average remaining contractual life of 8 years)	**8,306,315**	**15.6** (ranging from €12.49 to €20.82)
Out of which exercisable	-	-

Common stock call agreement in connection with the formation of TCL-Thomson Electronics (TTE)

In connection with the Combination Agreement with TCL Multimedia (formerly Corporation TCL) to form TCL-Thomson Electronics (TTE), Thomson may provide employee bonuses in the form of shares of Thomson s stock to certain former employees of Thomson that have been employed by TTE.

The maximum amount of shares to be provided by Thomson was 545,279 in four equal tranches at each anniversary date (of which 141,838 is scoped out by IFRS 2) and the estimated fair value of the option granted to TTE employees amounted to €15.10 at grant date. These shares are vested progressively from August 2004 to August 2007.

Retention agreements in connection with acquisitions

Inventel: on March 29, 2005, Thomson acquired 100% of Inventel.

In addition to the total consideration paid for the acquisition, a maximum number of 1,760,000 Thomson shares were granted at a cost of €20.72 per share depending on retention conditions and vest 50% on July 1, 2006 (exercisable until September 30, 2007) and 50% on July 1, 2007 (exercisable until February 29, 2008). Such number of shares may decrease to cap to €8.8 million the total possible gain for the stock holder for each of the two vesting dates.

At grant date, the weighted estimated fair value of the option granted to Inventel employees amounted to €3.2 per option.

Cirpack: on April 20, 2005, Thomson acquired 100% of Cirpack.

In addition to the total consideration paid for the acquisition, a maximum number of 2,101,756 Thomson shares were granted at a cost of €20.23 per share depending on retention conditions and vest 50% in April 20, 2006 and 50% in April 20, 2007. Such number of shares may decrease to cap to €14 million the total possible gain for the stock holder. At the participant's option, this plan can be settled in cash.

At grant date, the weighted estimated fair value of the option granted to Cirpack employees amounted to €1.80.

Summary of the movement of options in connection with TTE, Cirpack and Inventel:

	Number of share options for retention plans	**Weighted Average Exercise Price** *(in €)*
Outstanding as of January 1, 2004	**-**	**-**
Granted	403,441	0.0
Outstanding as of December 31, 2004	**403,441**	**0.0**
(with an average remaining contractual life of 2 years)		
Out of which exercisable	-	-
Granted	3,861,756	20.5
Forfeited	(70,110)	0.0
Outstanding as of December 31, 2005	**4,195,087**	**18.8**
(with an average remaining contractual life of 1 year)		(ranging from €0 to €20.7)
Out of which exercisable	-	-
Exercised	(225,343)	0.0
Forfeited	(4,176)	0.0
Expired	(1,050,878)	20.2
Outstanding as of December 31, 2006	**2,914,690**	**19.8**
(with an average remaining contractual life of 1 year)		(ranging from €0 to €20.7)
Out of which exercisable	-	-

Significant assumptions used

The estimated fair values of the options granted were calculated using the Black-Scholes option pricing model.

For the Inventel and Cirpack retention plans, the number of options depends on future market conditions (gain caped to a global gain ceiling). For these plans, the fair value of options was determined using the Black and Scholes formula modified to take into account the gain ceiling.

The inputs into the model were as follows:

(in% and in euro)	**For stock options plans granted in 2006**	**in 2005**	**in 2004**	**For TTE option plan granted in 2004**	**For Cirpack option plan granted(*) in 2005**	**For Inventel option plan granted in 2005**
Weighted average share price at measurement date	12.41	18.4	16.5	15.5	17.8	21.3
Weighted average exercise price	12.49	18.6	16	0	20.2	20.7
Expected volatility	30%	35%	35%	N/A	24%	21%
Expected life	5 years	7 years	9 years	2 years	1 year	3 years
Risk free rate	3.6%	3.6%	4%	4%	2.7%	2.8%
Expected dividend yield	2.25%	1.8%	1.8%	1.8%	1.8%	1.8%
Fair value at measurement date	3.2	6.5	6.5	15.1	0.1(*)	3.2

(*)

Cirpack s plan requires remeasurement at each balance sheet date because it can be cash settled. Therefore indicated value for this plan is updated as of December 31, 2006 and the change in fair value (€(0.6) by option in 2006, €(1.1) by option in 2005) is recognized at each balance sheet date as compensation expense with counterpart in liabilities.

For share options plan, Thomson considered an expected turn over of 8% based on historical observation.

Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in option-pricing models is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time.

Factors that have been considered in estimating expected volatility for the long term maturity stock option plans include:

·

the historical volatility of Thomson s stock over the longer period available;

·

adjustments to this historical volatility based on changes in Thomson s business profile.

For shorter maturity options, expected volatility was determined based on implied volatility on Thomson s share observable at grant date.

Compensation expenses charged to income

(in € million)	**2006(*)**	**2005(*)**	**2004**

Employees subscription options plans	(10)	(6)	(2)
Retention Plans(**)	(3)	(6)	(1)
TOTAL	**(13)**	**(12)**	**(3)**

(*)

The counterpart of this expense has been credited for €14 million to equity and for €(1) million to liability in 2006 (€11 million to equity and €1 million to liability in 2005).

(**)

Out of which €1 million, €3 million and €1 million for the year ended December 31, 2006, 2005 and 2004, respectively are related to other than Thomson employees.

Elements concerning the plans to which IFRS 2 has not been applied(*)

(*)

Granted before November 7, 2002 and/or vested as of January 1, 2005.

The equity instruments not restated under IFRS 2 in accordance with IFRS 1 includes BASAs (Bons d Achat et de Souscription d Actions) acquired by the Group s employees who were eligible to the plan. These BASAs were granted on September 15, 2004 and entirely vested prior to December 31, 2004. An estimation of the number of BASAs subscribed by employees is 3,100,000.

The other equity instruments not restated under IFRS 2 are described below:

.

Thomson common shares attributed to TTE employees prior to December 31, 2004, for the part vested prior to December 31, 2004;

.

stock options granted in 2004 as a replacement of stock option rights granted prior to November 7, 2002;

.

stock options plans granted prior to November 7, 2002.

	Plan 1	**Plan 2**	**TTE Options**
Type of plan	Purchase options	Subscription options	
Day of grant	December 18, 2000 March 16, 2001 July 23, 2001	October 12, 2001	July 31, 2004
Number of options granted	4,018,500	3,540,300	141,838
Vesting date	50% as of December 18, 2003 50% as of December 18, 2004	50% as of October 12, 2004 50% as of October 12, 2005	August 31, 2004
Option life	10 years	10 years	August 31, 2004
Exercise price *(in €)*	55.90	31.50	0

The detail of stock options (excluding BASAs) not accounted for under IFRS 2 because of IFRS 1 exceptions is as follow:

	Number of options	**Weighted Average Exercise Price** *(In €)*
Outstanding as of January 1, 2004	**5,983,400**	**43.9**

Granted	3,908,528	15.4
Exercised	(141,838)	-
Cancelled (exchanged)	(3,972,000)	42.3
Forfeited	(394,010)	51.0
Outstanding as of December 31, 2004 (with an average remaining contractual life of 9 years)	**5,384.080**	**25.1**
Out of which exercisable	*1,299,000*	*49.8*
Forfeited	(963,130)	39.4
Outstanding as of December 31, 2005 (with an average remaining contractual life of 8 years)	**4,420,950**	**22.0**
Out of which exercisable	*905,200*	*45.1*
Forfeited	(286,740)	19.0
Outstanding as of December 31, 2006 (with an average remaining contractual life of 7 years)	**4,134,210**	**22.2**
Out of which exercisable	*865,900*	*45.5*

30 Other current and non-current liabilities

(in € millions)	**2006**	**2005**	**2004**
Non-current royalties	19	22	66
Other	52	81	63
TOTAL OTHER NON-CURRENT LIABILITIES	**71**	**103**	**129**
Taxes payable	68	116	93
Current royalties	170	176	257
Long lived assets acquisition balance	18	14	64
Other	415	444	386
TOTAL CURRENT LIABILITIES	**671**	**750**	**800**

31 Payables on acquisition of companies

As of December 31, 2006, the Group has a total debt related to acquisitions of €13 million related mainly to acquisition of NOB CMF.

As of December 31, 2005, Thomson had a debt toward Thales regarding the acquisition of Thales Broadcast & Multimedia (TBM) on December 2005 for a gross amount of €138 million. During the first half of 2006, this amount due to Thales was paid.

As of December 31, 2004, the amount of promissory notes outstanding related to the acquisition of Technicolor was €84 million (U.S.$115 million) of which €9 million was for accrued interest. On March 16, 2005, Thomson repaid the last promissory notes for a total amount of €86 million (U.S.$115 million) of which €10 million (U.S.$13 million) was for accrued interest.

32 Earnings per share

The calculation of the diluted earnings per share attributable to the ordinary equity holders of the parent presented is as follows:

	2006	**2005**	**2004**
Numerator:	181	124	332
Adjusted profit from continuing operations attributable to ordinary shareholders *(in € millions)* (1)			
Denominator (weighted shares in thousands)	287,586	293,796	298,762
Of which			
BASA s	-	1,964	299

Silver Lake convertible (September 2004)	23,977	23,417	6,704
Cirpack and Inventel options (weighted)	2,291	924	-
Other stock options	126	830	139
Other convertibles	-	-	17,973

(1)

Profit from continuing operations is adjusted by the following items:

(in €millions)	**2006**	**2005**	**2004**
Profit from continuing activities	**193**	**198**	**322**
Profit from continuing activities attributable to ordinary shareholders	**193**	**196**	**324**
Paid dividend on perpetual subordinated note (net of tax)	(19)	-	-
Profit from continuing activities attributable to ordinary shareholders for basic earnings per share	**174**	**196**	**324**
Cancellation of the fair value (gain)/loss on the derivative element of the Silver Lake convertible bond and of the interests expensed in the period (net of tax)	7	(69)	-
Cancellation of the interest on convertible bonds for those which are dilutive	-	-	8
Cancellation of the gain on the change in value of the call granted to TCL as part of the deal regarding the creation of TTE	-	(3)	-
Adjusted profit from continuing activities attributable to ordinary shareholders for diluted earnings per share	**181**	**124**	**332**

33 Information on employees

The geographical breakdown of the number of employees of the Group is as follows:

	2006	**2005**	**2004**
Europe (1)	9,267	9,435	16,609
North America	10,984	12,334	12,992
Asia (2)	6,648	7,441	12,842
Other countries (3)	2,729	3,265	6,636
Number of employees in subsidiaries	**29,628**	**32,475**	**49,079**
Number of employees in entities accounted for under the equity method	(*)	34,201	32,354
TOTAL EMPLOYEES	**29,628**	**66,676**	**81,433**

(*)

TCL is no more accounted for under the equity methods (see Note 15).

(1)	*998*	*970*	*5,416*

Of which Poland (2)			
Of which People s Republic of China including Hong Kong (3)	*5,053*	*6,034*	*11,030*
Of which Mexico	*1,955*	*2,204*	*5,647*

The total Employee benefits expenses (including only people employed in the consolidated entities) is detailed as follows:

(in € millions)	**2006**	**2005**	**2004**
Wages and salaries	1,072	1,044	1,275
Social security costs	204	202	299
Compensation expenses linked to share options granted to directors and employees [(1)]	12	9	2
Pension costs - defined benefit plans [(2)]	(121)	52	81
Termination benefits and other long-term benefits [(3)]	114	54	61
TOTAL EMPLOYEE BENEFITS EXPENSES (EXCLUDING DEFINED CONTRIBUTION PLANS)	**1,281**	**1,361**	**1,718**
Pension costs defined contribution plans [(4)]	24	24	N/A

(1)

See Note 29.

(2)

See Note 27.

(3)

Include termination costs of €113 million, €48 million and €59 million in 2006, in 2005 and 2004 respectively. These costs were posted in restructuring expenses in the income statement (see Note 28).

(4)

Defined contribution paid within a legal and mandatory social regime are included in social security costs presented above.

34 Acquisitions, disposals and other operations impacting the consolidated statements of cash flow

(a) Acquisition of subsidiaries, associates and investments

(in € millions)	**2006**	**2005**	**2004**
Inventel	-	(82)	-
Cirpack	-	(40)	-
ContentGuard	-	(20)	-
Premier Retail Network	-	(248)	-
Command Post	-	-	(11)
Hughes Network Systems	-	-	(204)

The Moving Picture Company	-	(11)	(78)
Nextamp	(2)	(7)	-
VCF Thématiques	(17)	(11)	-
TTE [(1)]	-	-	(115)
Videocon industries	-	(240)	-
Technicolor	-	(77)	(83)
Canopus	(83)	-	-
Convergent	(32)	-	-
Thalès Broadcast & Multimedia	(133)	-	-
NOB CMF	(6)	-	-
Other	(8)	(20)	(101)
Acquisition of investments	**(281)**	**(756)**	**(592)**
Less cash position of companies acquired	26	61	13
Acquisition of investments, net	**(255)**	**(695)**	**(579)**

(1)

In 2004, the negative cash flow effect on TTE is linked to the disposal of Thomson television business and the creation of TTE.

(b) Purchase of treasury shares and others

This caption corresponds to the conversion of BASA in 2006. In 2005, it includes a value added tax reimbursement on capital increase fees for €9 million.

(c) Changes in working capital and other assets and liabilities

Pursuant to its policy of managing credit risk, Thomson now routinely factors certain trade accounts receivable in Europe and North America. Thomson sold trade receivables in its continuing operations without recourse in 2006 for an amount of €186 million (see Note 12 for receivables on discontinued operations).

(d) Net operating cash generated from continuing activities

In 2006, the €533 million positive operating cash flow from continuing activity has been adversely impacted during 2006 by a cash out of €46 million in the Displays and CE partnership segment which was mainly caused by the settlements agreed upon with TTE and TCL linked to the TV exit, which are non-recurring, and did not qualify under IFRS 5 to discontinued classification.

(e) Net cash used in discontinued operations

In 2006, the cash outflow related to discontinued operations amounts to €275 million. In 2005, the cash outflow related to discontinued operations amounts to €344 million (of which €342 million from operating activities). This cash outflow is net of cash received for the sale of Thomson's Tubes activities and related technologies to Videocon for a consideration of €223 million which was immediately reinvested into Videocon Industries shares for an amount of €240 million. In 2005, the net financing cash used in discontinued operations is net of financing provided by the parent company for repayment of financial debt prior to disposal.

35 Contractual obligations and other commitments

The following table provides information regarding the aggregate maturities of contractual obligations and commercial commitments as of December 31, 2006 for which the Group is either obliged or conditionally obliged to make future cash payments. This table includes firm commitments that would result in unconditional or conditional future payments, but excludes all options since the latter are not considered as firm commitments or obligations. When an obligation leading to future payments can be cancelled through a penalty payment, the future payments included in the tables are those that management has determined most likely to occur given the two alternatives.

The Group provides certain guarantees to third parties (financial institutions, customers, partners and government agencies) to ensure the fulfilment of contractual obligations by Thomson and its consolidated subsidiaries in the ordinary course of their business. The guarantees are not shown in the table below as they do not increase the Group s commitments in relation to the initial commitments undertaken by the entities concerned. They include mainly performance guarantees, in particular for the play-out activity and long-term contracts related to the Broadcast activity.

In the normal course of its activity, the Services segment may provide guarantees to its customers on the products stored and then distributed against any risk or prejudice that may occur during manufacturing, storage or distribution. Such guarantees provided are covered by insurance. Guarantees provided by entities of the Group for securing debt, capital leases, operating leases or any other obligations or commitments of other entities of the Group are not included as the related obligations are already included in the table below.

No material commitment is omitted in this Note, in accordance with IFRS.

Contractual obligations and commercial commitments					
		Amount of commitments by maturity			
(in € millions)	**December 31, 2006**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Unconditional future payments					
On balance sheet obligations:					
Financial debt excluding finance leases(1)	2,603	1,274	104	588	637
Finance leases(2)	66	2	19	23	22
Payables on acquisition and disposal of companies	13	13	-	-	-
Off balance sheet obligations:					
Operating leases(3)	507	96	152	106	153
Purchase obligations(4)	152	105	34	13	-
Other unconditional future payments(5)	57	48	8	1	-
TOTAL UNCONDITIONAL FUTURE PAYMENTS(*)	**3,398**	**1,538**	**317**	**731**	**812**
Conditional future payments					
Off balance sheet obligations:					
Guarantees given(6)	126	107	1	1	17
Standby letters of credit(7)	42	42	-	-	-
Other conditional future payments(8)	73	24	23	10	16
TOTAL CONDITIONAL FUTURE PAYMENTS(*)	**241**	**173**	**24**	**11**	**33**

(*)

“Total Unconditional future payments” and “Total Conditional future payments” as of December 31, 2005 amounted respectively to €3,358 million and €516 million on continuing operations.

(1)

Financial debt is reported for its principal amount and accrued interest. Future interest expense and the impact of interest rate swaps are not reported in this table. Currency swaps, hedging operations and foreign exchange options are described below in a separate table.

(2)

The main finance leases relate to the Services segment (€36 million in Mexico and €18 million in the UK).

(3)

Operating leases are described below in this note.

(4)

These include in particular commitments to buy advertising space for €65 million in the Group's cinema advertising activity and to acquire minimum volumes from Asian suppliers for €45 million.

(5)

Other unconditional future payments relate in particular to i) Film Laboratory and Post Production Services agreements, ii) general sponsoring agreements entered into in the US and iii) other contractual advances.

(6)

These guarantees comprise:

– guarantees given for disposal of assets for €64 million;

– guarantees for customs duties and legal court proceedings for €37 million, comprising mainly duty deferment guarantees required by the customs administrations to benefit from customs duty deferments. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant an economic regime, under which a cumulated duty payment is made after a determined one-month credit period. The carrying value of this guarantee is to cover the duties to be paid during the credit period;

various operational guarantees granted to customs administrations in order to be exempt from duties goods transiting through customs warehouses for re-exportation, and transit guarantees in order that taxes are paid on goods only at their final destination in the import country. The maturity of these bank guarantees match the one-month renewable term of the agreements.

(7)

Standby letters of credit relate mainly to guarantees in favor of US employer insurance companies for €27 million.

(8)

Conditional obligations include contingent earn out payments related to the purchase of 20% of Technicolor Digital Cinema L.L.C. and other obligations.

Additional information:

– guarantees and commitments received amount to €26 million as of December 31, 2006;

– the above table is only related to continuing operations. Contractual obligations and commercial commitments on discontinued operations, unconditional and conditional, amount to €20 million and to €24 million respectively as of December 31, 2006.

Commitments related to financial instruments

Commitments related to financial instruments held by the Group generate both future cash payments and receipts. Therefore they have not been disclosed in the table above. These commitments are disclosed in the following table as follows:

- forward exchange contracts, swaps and options and metal hedging contracts: for their related cash inflow and outflow amounts;

- interest rate swaps: for the underlying nominal debt amounts.

(in € millions)	**December 31, 2006**
Currency swaps	895
Forward exchange contracts	546
Interest rate swaps	822
Metals hedging contracts	11
Foreign exchange options	167
TOTAL COMMITMENTS GIVEN	**2,441**
Currency swaps	899
Forward exchange contracts	539
Interest rate swaps	822
Metals hedging contracts	11
Foreign exchange options	167
TOTAL COMMITMENTS RECEIVED	**2,438**

Operating leases

Commitments related to future minimum and non-cancelable lease payments are detailed below:

(in € millions)	**December 31, 2006(1)**
2007	96
2008	84
2009	68
2010	59
2011	47
After 5 years	153
TOTAL MINIMUM FUTURE LEASE PAYMENTS	**507**
Future lease payments commitments received (2)	(66)

NET VALUE OF FUTURE LEASE COMMITMENTS	**441**

(1)

Minimum operating lease payments shown are not discounted.

(2)

Includes mainly operating lease payments from customers of our Network Services activities within the Services segment.

The main operating leases relate to the office buildings in Boulogne and Indianapolis:

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the office building located in Boulogne-Billancourt, France was sold for €91 million (€89 million net of costs) on February 29, 2000. The building was leased back from the purchaser until 2009;

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the US. office building (administration and technical services buildings) was sold in March 2000 for €57 million net of costs. The building was leased back from the purchaser for a twelve-year period.

The operating lease expense of the Group in 2006 was €93 million.

36 Contingencies

In the normal course of the business, the Group is involved in various legal proceedings and is subject to tax, customs and administrative regulation. The Group s general policy is to accrue a reserve when a risk represents a contingent liability towards a third-party and it can be reasonably estimated.

Significant pending legal matters include the following:

Italian tax litigations

Videocolor

The Italian Guardia di Finanza tax police conducted a tax verification of the Italian subsidiary of the Group, Videocolor S.p.A. (Videocolor), which had exported picture tubes to Thomson, Inc. during the years 1993 through 1998. In its report transmitted to the Italian Direct Taxes Local Office in December 1999, the Guardia di Finanza recommended increasing the prices of the tubes exported to Thomson, Inc., and, as a consequence, increasing the taxable income of Videocolor S.p.A. The taxable income increase, as proposed for the years 1993 through 1998, with regard to picture tube prices, amounts to €31 million. With regard to the years 1993 and 1994, Videocolor S.p.A. elected in May 2003 after having received partially favorable decisions from the Courts, to apply for the new tax amnesty, enacted by the Italian Parliament in 2003 and paid a total amount of €1 million following this amnesty application. Videocolor is able to use all the tax losses originating from 1993 and the previous years.

With regard to the year 1995, the Direct Taxes Local Office gave notice in 2001 of an assessment resulting in (i) additional taxes amounting to €4 million and (ii) tax penalties amounting to €4 million (before interest). The taxable income increase, as proposed for 1995, also mainly relates to picture tube prices. Videocolor S.p.A. appealed this assessment on October 25, 2001, before the competent tax jurisdiction of Frosinone in Italy, which made a decision on March 17, 2003 to reject almost all of the assessment of the Italian Tax authorities. Tax office appealed this decision, on October 30, 2003 before the court of Latina, and Videocolor S.p.A. challenged this appeal on June 25, 2004. The judgment published on November 20, 2006, was partially positive for Videocolor, as the court confirmed an assessment amounting to €2 million, including penalties. The company is currently checking the possibility to appeal the sentence before the Supreme Court, as this assessment is not based on the OECD principle on transfer prices.

On September 2002, the Direct Taxes Local Office gave notices of two assessments with regard to 1996 and 1997 fiscal years resulting in (i) additional taxes amounting to €3 million and €2 million, respectively and (ii) tax penalties amounting to €3 million and €2 million, respectively. Videocolor S.p.A. challenged the assessments before the competent tax jurisdiction of Frosinone on December 9, 2002, which decided, on November 15, 2004, to reject almost all of the assessments of the Italian Tax authorities. The Tax office appealed this decision, on December 12, 2005 before the court of Latina, and Videocolor S.p.A. challenged this appeal on February 10, 2006.

On December 17, 2003, the Direct Taxes Local Office gave notice of an assessment with regard to 1998 fiscal year resulting in (i) additional taxes amounting to €0.1 million and (ii) penalties amounting to €0.1 million. Videocolor S.p.A. appealed this assessment on March 2, 2004 before the competent tax jurisdiction of Frosinone in Italy, which decided, on December 9, 2005, to reject almost all of the assessments of the Italian Tax authorities.

On a global basis, if the 1995 assessment as per the November 20, 2006 decision is applied to the whole period 1995 to 1998, the maximum risk, including penalties, would amount to €2 million.

Thomson sold Videocolor in February 2005, but remains responsible for this case because of the guarantees given to the buyer of Videocolor.

Thomson Multimedia Sales Italy

On May 24, 2006, the Guardia di Finanza concluded a global tax verification on Thomson Multimedia Sales Italy related to 2003 and issued an assessment challenging (i) some deductions, (ii) the tax benefits of a legal entities reorganization and (iii) the recovery of VAT on sales commissions. The Guardia di Finanza also considered that, for the period 2003-2005, Thomson Multimedia Sales Europe (a French entity) had a permanent establishment in Italy.

In order to review the potential tax benefits of the legal entities reorganization , the Lazio Regional Tax Office performed an audit of Videocolor for the fiscal years 2003 and 2004. The Tax office report dated January 31, 2007 did not include any assessment on this legal entities reorganization.

Thomson is convinced of its substantially regular and correct postings and procedures.

Brazilian tax litigation

Brazilian Tax Authorities have assessed Thomson Tubes Components (Belo Horizonte) LTDA for the non payment of the Social Contribution on Profit (CSSL) for a total amount of 29.3 million of reals (around €10 million) from 1994 to 2003, despite the fact that, in 1991 and 1997, a Court gave the right to Thomson not to pay CSSL as the CSSL violated the Federal Constitution. Thomson believes it has correctly applied the Brazilian tax law and strongly disputes the grounds for this assessment. As the buyer of Thomson Tubes Components (Belo Horizonte) LTDA took over the whole risk, this issue is now closed for Thomson.

Superguide Corporation

In June 2000, Superguide Corporation filed suit in the U.S. District Court for the Western District of North Carolina against DIRECTV Enterprises, Inc., Thomson, Inc. and Echostar Communications Corporation alleging infringement with respect to three patents relating to program guide data retrieval, display, and program recording. Gemstar Development Corporation was added as a defendant in March 2001. In July 2002, the U.S. District Court for the Western District of North Carolina granted summary judgment in favor of Thomson, DIRECTV and Echostar, finding that none of the three patents owned by Superguide Corporation were infringed. Superguide Corporation and its licensee, Gemstar Development Corporation, appealed the District Court s decision with the U.S. Federal Circuit Court of Appeals. On February 12, 2004 the Court of Appeals issued a decision affirming in part and reversing in part the District Court s claim construction of the patents in issue. As a result, the Court of Appeals vacated the summary judgment ruling of the District Court and remanded the case to the District Court for further proceedings. Subsequently, in August 2005 the District Court again entered judgment in favor of Thomson on two of the three patents in suit. Thomson also filed a summary judgment motion asserting that the existence of a sublicense between Thomson and Gemstar provides Thomson the applicable rights to the remaining asserted Superguide patent. Gemstar joined Thomson in this filing. In November 2006, the Court denied Thomson s motion for summary judgment, finding that the license between Superguide and Gemstar is ambiguous as to whether Gemstar received the right to sublicense the patents in the satellite broadcasting field. A bench trial occurred on this issue in March 2007.

Anti-dumping on televisions manufactured by Thomson s Thailand unit

Customs authorities in eight European countries are assessing imports into the European Union by Thomson subsidiaries of television manufactured by Thomson in Thailand. These proceedings relate to different periods according to the different rules in each country, beginning at the earliest in 1997 and ending at the latest in August 2002. In accordance with the relevant procedures, Thomson received in May 2004, January and February 2005 various re-assessment notices relating to antidumping duties, excluding interest and any penalties applicable, in the United Kingdom, Germany, France, Italy, Spain, Denmark, Greece and Sweden in an aggregate amount of around €16.1 million. On March 24, 2005, the Provincial Tax Court of Milan (Italy) rendered a decision and maintained the assessment; Thomson will appeal. The French Customs Authority accepted to submit in August 2005 to the European Commission Thomson s duty refund claim based on Article 239 of the European Community s Customs Code. This claim, which is not an admission of liability, is under review by the European Commission. Thomson believes that it has correctly declared and paid duty on the imported televisions concerned and accordingly strongly disputes the grounds of these re-assessments.

Taoyuan County Form RCA Employees Solicitude Association (the Association)

In April 2004, the Association filed a purported class action under Article 41 of the Taiwan Code of Civil Procedure in the Taipei District Court, Taiwan, Republic of China against TCE Television Taiwan Ltd. (TCETVT) and General

Electric International, Inc. The complaint alleges that the defendants failed to provide employees with necessary instructions on how to protect themselves and failed to take measures to store or dispose of chemicals used in the operation of the Taoyuan electronics plant. The Association claims damages in the amount of TWD 2.4 billion (€56 million at December 31, 2006 closing rate) to compensate the members of the Association for the alleged higher-than-normal incidents of cancer and disease suffered by the former plant employees who worked at the facility during the period 1970-1992. On March 18, 2005, the Association s complaint was dismissed by the Taipei District Court based on the Association s failure to comply with certain procedural aspects of Taiwan s class action statutes. In October 2005, the Association appealed the dismissal, which was upheld by the Taiwan Supreme Court in December 2005. The case has been remanded to the Taipei District Court for further proceedings as to procedural compliance by the Association. On May 12, 2006 TCETVT filed its first Defense Statement again attacking the Plaintiffs failure to comply with the procedural requirements. The Association has filed a response, and TCETVT has prepared its second Defense Statement.

Parental Guide of Texas, Inc.

On February 7, 2003, Parental Guide of Texas, Inc. filed suit against Thomson, Inc. in the U.S. District Court for the Eastern District of Texas alleging that Thomson, Inc. was in breach of a release and license agreement the parties had previously entered into in October 2002. In January 2005, the Court issued an order and final judgment in favor of Thomson, Inc. which Parental Guide of Texas, Inc. appealed unsuccessfully on April 21, 2006. The matter is now final.

Pegasus Development Corporation and Personalized Media Communications, L.L.C.

In December 2000, Pegasus Development Corporation (Pegasus) and Personalized Media Communications, L.L.C. (PMC) filed suit in the U.S. District Court for the District of Delaware against Thomson, Inc., DIRECTV, Inc., Hughes Electronics Corporation, and Philips Electronics North America Corporation alleging infringement with respect to seven patents relating to digital satellite signal processing. In November 2001, StarSight Telecast, Inc., TVG-PMC, Inc., and Gemstar-TV Guide International, Inc. (Gemstar) were added as third-party defendants and filed a counterclaim.

Subsequently, Thomson, Inc. filed a Revised Second Amended Counterclaim and Amended Third-Party Complaint claiming violation of antitrust laws and unfair competition. Upon Thomson, Inc. s motion, the antitrust and unfair competition claims were transferred to the U.S. District Court for the Northern District of Georgia by the Judicial Panel on Multi-District Litigation for inclusion in the coordinated or consolidated MDL-1274 pretrial proceedings occurring there involving Gemstar, Scientific Atlanta, Inc. Pioneer Corp., EchoStar Communications Corp., and other parties. In June 2003, as part of a new commercial arrangement with Gemstar, the company dismissed with prejudice its antitrust and unfair competition claims against Gemstar and Gemstar agreed to provide the company with a limited indemnity with respect to the PMC patent litigation. In March 2004, the U.S. District Court for the Northern District of Georgia remanded the antitrust and unfair competition claims back to the U.S. District Court for the District of Delaware, where pursuant to an order of the U.S. District Court for the District of Delaware in May 2003, the case is subject to an indefinite stay pending the re-examination of the patents at issue by the U.S. Patent and Trademark Office (USPTO).

The USPTO has now issued initial office actions on all seven patents rejecting almost all of the claims asserted in the litigation as unpatentable. Pegagus and PMC have filed a Notice of Appeal in the re-examination proceedings with respect to each of the seven patents. Pegagus and PMC have filed appeal briefs in the re-examination proceedings with respect to four of the patents, with the remaining three appeal briefs due in early 2007.

Metabyte, Inc., and Vivek Mehta v. Canal+ Technologies SA

In October 2002, Metabyte, Inc. (MNI) and Vivek Mehta (the plaintiffs) filed suit against Canal+ Technologies (an entity subsequently acquired by Thomson) alleging breach of a 2001 Put Option Agreement whereby MNI shareholders could oblige Canal+ Technologies to buy back their shares. The matter proceeded to trial in June 2005, resulting in a verdict in favor of Canal+ Technologies. Plaintiffs initiated an appeal of the unfavorable jury verdict, but dismissed the appeal with prejudice on September 7, 2006 in exchange for Thomson s agreement to waive recovery of costs awarded in connection with the litigation. The matter is now final.

IP Innovation and Technology Licensing Corp.

On June 20, 2003, Technology Licensing Corp. (TLC) filed a lawsuit in the U.S. District Court for the Eastern District of California alleging that certain Grass Valley Group products infringe four of TLC s U.S. patents. Thereafter, TLC placed two of the patents into re-examination before the United States Patent and Trademark Office. As a result, this

lawsuit has been stayed as to those patents pending a ruling on re-exam. In June and July 2005, the District Court granted summary judgment in favor of Thomson on the remaining two patents. TLC appealed that ruling to the U.S. Federal Circuit Court of Appeals. On April 20, 2006, the parties reached an agreement in principle settling all issues pertaining to the Appeal. The case remains pending with respect to the remaining two patents in suit.

Thomson, Inc. v. Praxair

After closure of the Circleville, Ohio glass manufacturing facility in March 2004, Thomson Inc, and Praxair engaged in protracted litigation pertaining to a 15-year oxygen supply agreement the parties had entered into in 1996. After a June 9, 2006 jury verdict which Praxair initially appealed, the parties entered into a mutual general release and settlement agreement fully resolving all claims which were the subject of the lawsuit.

Compression Labs, Inc. v. Adobe Systems, et al.

In April 2004, Compression Labs (CLI) filed suit against Thomson, Inc. and 27 other companies in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging infringement of U.S. patent No. 4,698,672 which relates to a method and apparatus for processing signals used in video compression systems including the JPEG standard. On October 5, 2006, the parties entered into a patent license and settlement agreement fully resolving all claims which were the subject of the lawsuit.

STV Asia, LTD. v. Premier Retail Network

On March 2, 2006 STV Asia, LTD. (STV) filed suit in the U.S. District Court for the Northern District of California against Premier Retail Networks (PRN), Thomson subsidiary since August 2005, alleging that PRN s in store media network infringes two U.S. patents allegedly owned by STV. In February 2007 the Court issued a claim construction ruling in the case which has resulted in the parties agreeing to conduct a mediation/settlement conference in April 2007.

Environmental matters

A certain number of Thomson s current and previously-owned manufacturing sites have an extended history of industrial use. Soil and groundwater contamination, which occurred at some sites, may occur or be discovered at other sites in the future. Industrial emissions at sites that Thomson has built or acquired expose the Group to remediation costs. The Group has identified certain sites at which chemical contamination has required or will require remedial measures.

Soil and groundwater contamination was detected near a former production facility in Taoyuan, Taiwan acquired from General Electric and owned by Thomson from 1987 to 1992. Production activities at this site ceased after being sold by the Group. Thomson is currently working with the local Taoyuan Environmental Protection Agency to undertake a potential remediation of groundwater contamination. In accordance with an agreement for the acquisition of General Electric Company s consumer electronics business in 1987, General Electric Company has assumed or indemnified Thomson with respect to certain liabilities resulting from this issue, and should assume or indemnify the Group with respect to certain liabilities that could arise from the period prior to Thomson s acquisition of the property.

In addition to soil and groundwater contamination, the Group sells or has sold in the past products which are subject to recycling requirements and is exposed to changes in environmental legislation on affecting these requirements in various jurisdictions.

The Group believes that the amounts reserved and the contractual guaranties provided by its contracts for the acquisition of certain production assets will enable it to reasonably cover its safety, health and environmental obligations. However, potential problems cannot be predicted with certainty and it cannot be assumed that these reserve amounts will be precisely adequate. In addition, future developments such as changes in governments or in safety and health laws or the discovery of new risks could result in increased costs and liabilities that could have a material effect on the Group s financial condition or results of operations. Based on current information and the

provisions established for the uncertainties described above, the Group does not believe it is exposed to any material adverse effects on its business, financial condition or result of operations arising from its environmental, health and safety obligations and related risks.

37 Related party transactions

The main transactions completed with, receivable from and payable to related parties are detailed as follows:

(in € millions)	**2006**	**2005**	**2004**
Balance sheet items			
Trade receivables			
TCL Multimedia [1]	24	13	106
Other related parties			
- France Telecom and its subsidiaries	8	55	9
- Microsoft Corporation and its subsidiaries	17	17	10
- DIRECTV and its subsidiaries (DIRECTV[2])	N/A	N/A	35
Loan receivable			
TCL Multimedia [1]	36	57	99
Financial debt and liability			
Other related parties			
- Silver Lake Partners (nominal amount) [3]	(380)	(422)	(367)
Income statement items			
Revenues			
TCL Multimedia [1]	76	355	365
Other related parties			
- France Telecom and its subsidiaries	223	153	41
- Microsoft Corporation and its subsidiaries	101	49	77
- DIRECTV and its subsidiaries (DIRECTV[2])	N/A	N/A	374
Finance costs net			
TCL Multimedia [1]	-	3	4
Other related parties			
- Silver Lake Partners [3]	(14)	61	N/A
- Carlton Communications Plc and its subsidiaries (Carlton[2])	N/A	N/A	(3)

(1)

Corresponds mainly to TCL Multimedia and its subsidiaries (including TTE): Thomson reached an agreement with TCL Multimedia Technology Holding Ltd. (TCL Multimedia), which is listed on the Hong Kong Stock Exchange and is the parent company of TTE and TCL Corporation to facilitate TTE s evolution in Europe, secure a continuation of activities at Thomson s Angers factory and resolve certain issues Thomson had under the existing contractual framework. Among other items, this agreement provided for the termination of TTE s right to use the Thomson® trademark at the end of 2008 for most of Europe. In addition, Thomson reached an agreement with TCL Corporation in October 2006 to cancel the lock-up period on the TCL Multimedia shares held by Thomson. On November 3, 2006 Thomson reduced its holding in TCL Multimedia to 753,888,095 shares, representing 19.32 per cent of TCL

Multimedia s share capital, with the sale of 390,294,000 shares in a private placement. Following this sale Thomson s interest in TCL Multimedia is therefore no longer accounted for under the equity method as Thomson has no significant influence anymore. As of December 31, 2006, the remaining interest is classified as available-for-sale financial asset and the Group determines that TCL Multimedia ceased to be a Thomson related party from November 3, 2006.

In addition, in the ordinary course of business, Thomson provided over 2004, 2005 and until October 2006 various products and services to TCL Multimedia. These products and services comprised cathode ray tubes, televisions manufactured on a sub-contractual basis by Thomson s Angers facility, licenses of certain Thomson patents and trademarks, certain marketing and distribution services and a receivable purchase and sale agreement of certain TTE s receivable. We disclose related parties transactions with TCL Multimedia until December 31, 2006.

(2)

Since January 1, 2005 DIRECTV and Carlton have ceased to be related parties to Thomson and, therefore, from this date transactions with these third parties are not disclosed.

(3)

On September 16, 2004, Thomson issued convertible/exchangeable subordinated bonds to Silver Lake Partner LLC (see Note 25.2). As of December 31, 2006, 2005 and 2004, Thomson has a financial debt toward SLP amounting to €380 million (U.S.$500 million), €422 million (U.S.$500 million) and €367 million (U.S.$500 million), respectively (excluding unpaid second half-year coupon). In application of IAS 39, the above mentioned financial debt has been recognized in our consolidated balance sheet for an amount of €346 million, €376 million and €320 million as of December 31, 2006, 2005 and as of January 1, 2005, respectively (excluding second half-year coupon). In addition, a derivative financial instrument has been recognized in our consolidated balance sheet as a financial liability and amounted to €38 million, €46 million and €122 million as of December 31, 2006, 2005 and January 1, 2005, respectively. Change in fair value of the derivative instrument is charged to finance costs of the Group (see Note 4). For the period ended December 31, 2006 and 2005, Thomson recognized financial income of €6 million and €83 million (including exchange gain and loss). For the years ended December 31, 2006, 2005 and 2004, Thomson incurred financial expenses in an amount of €12 million, €13 million and €3 million, respectively, toward SLP. For the period ended December 31, 2006, 2005 and 2004, Thomson incurred also other operating expenses in an amount of €2 million, €2 million and €1 million, respectively, toward SLP.

Other transactions with related parties

In the context of the acquisition of 25% of the share capital of ContentGuard (see Note 6) completed on March 14, 2005, Thomson acquired 2,365,261 shares from Microsoft for a consideration price of U.S.$12 million. After this acquisition, Thomson, Microsoft and Time Warner share the control of ContentGuard with each a 33% control interest.

Microsoft, Canopus Co., Ltd. (Canopus), Canopus Corporation, Thomson Japan, K.K. and Thomson entered into an agreement, effective November 30, 2005, in connection with the impact on a technology license agreement between Canopus and Microsoft of the acquisition by a subsidiary of Thomson of more than 50% of the shares of Canopus.

On June 24, 2004, Thomson acquired the HNS set-top box manufacturing business of Hughes Network Systems (the manufacturing activity of DIRECTV Group) and signed concurrently an agreement for the long-term development and supply of digital satellite set-top boxes.

Key Management Personnel Compensation

Compensation expenses paid to board members have been approved by our Shareholders Meetings held on May 7, 2004 and November 10, 2002. Compensation payments to board members in 2006, 2005 and 2004 for Board Meetings held in 2005, 2004 and 2003 amounted to €355,500, €450,000 and €313,000, respectively.

Compensation expenses paid to members of our executive committee, who are or were concerned during the periods ended respectively December 31, 2006, 2005 and 2004 are shown in the table below:

(in € millions)	**2006**	**2005**	**2004**
Short term employee benefits	13	13	13
Post-employments benefits	-	1	1
Termination benefits(*)	-	-	2
Share-based payment	5	3	1
TOTAL	**18**	**17**	**17**

(*)

Following the decision of the Board of Directors Meeting held in October 2002, subsequently approved by the Shareholders Meeting held on May 2003, Charles Dehelly has been paid termination benefits amounting to €1,515,315, together with a €422,913 benefits payment related to its six months notice period.

38 Subsequent events

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Thomson signed a long-term contract with ITV plc, the leading commercial broadcaster in the UK, on December 18, 2006 to transmit its six existing channels, including ITV1. The operations transferred with effect from January 2, 2007 with the assets, staff and corresponding risk and rewards being assumed by Thomson from that date.

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On December 21, 2006, Thomson signed an agreement for the disposal of its accessories business in the U.S. outside of Europe with Audiovox Corporation. The closing of the transaction was finalized on January 29, 2007.

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On January 11, 2007 Thomson acquired the minority interests in Technicolor Universal Media Services LLC of America. The acquisition follows an initial transaction made in June 2002 by Thomson with the acquisition of 60% of the capital (as part of the overall acquisition of the Panasonic Disc Services business), completed by subsequent acquisitions of 15%. The company is fully consolidated from June 25, 2002 and the optional amount due to the minority shareholder was recorded as a debt at an estimated amount of around €12 million as of December 31, 2006.

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On January 16, 2007 Thomson finalized the acquisition of the 22% minority interest of Technicolor Network Services UK Limited (formerly Corinthian Television Facilities Ltd.). The acquisition follows an initial transaction made in October 2004 by Thomson with the acquisition of 78% of the capital. The company is fully consolidated from October 27, 2004 and the optional amount due to the minority shareholders was recorded as a debt at an estimated amount of €3 million as of December 31, 2006.

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On February 13, 2007, Thomson acquired 51% interest in Paprikaas Interactive Services Pty Limited, a leading Indian animation and gaming cinematics firm.

39 List of main consolidated subsidiaries

The following is a list of the principal consolidated holding entities and subsidiaries (with 2006 revenues above €30 million or 2006 net equity above €20 million):

	% share held by Thomson(% rounded to one decimal)		
Company (country)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
1) Fully consolidated			
Thomson (France) (formerly Thomson multimedia)46 quai Le Gallo – 92100 Boulogne Billancourt France		Parent company	
ATLINKS Communications Canada, Inc. (Canada)	100.0	100.0	100.0
Thomson Asia ldt. (Hong Kong) (Formerly ATLINKS Hong Kong Ltd.)	100.0	100.0	100.0
ATLINKS USA, Inc. (US)	100.0	100.0	100.0
Comercializadora de Productos Electronicos del Norte, SA de C.V. (Mexico)	100.0	100.0	100.0
European Audio Products (HK) Ltd. (Hong Kong)	100.0	100.0	100.0
Grass Valley Germany GmbH (Germany) (formerly BTS Media Solutions GmbH/Thomson Broadcast & Media Solutions GmbH)	100.0	100.0	100.0
Grass Valley France SA (France) (formerly Thomson Broadcast Systems SA/Thomson Broadcast & Media Solutions SA)	100.0	100.0	100.0
Grass Valley Ltd. (United Kingdom) (formerly Thomson Broadcast Ltd./Thomson Broadcast & Media Solutions Ltd.)	100.0	100.0	100.0
Grass Valley, Inc. (US) (formerly Thomson Broadcast & Media Solutions, Inc.)	100.0	100.0	100.0
S.M. Electronics (Germany)	100.0	100.0	-
Société Française d Investissement et d Arbitrage - Sofia (France)	100.0	100.0	100.0
Société Tonnerroise d Electronique Industrielle - STELI (France)	(*)	100.0	100.0
TCE Television Taiwan Ltd. (Taiwan)	100.0	100.0	100.0
Thomson Broadcast & Multimedia SA (France) (formerly Thales Broadcast & Multimedia SA)	100.0	100.0	-
Thomson Broadcast & Multimedia, Inc. (US) (formerly Thales Broadcast & Multimedia, Inc.)	100.0	100.0	-
Thomson Broadcast & Multimedia A.G. (Switzerland) (formerly Thales Broadcast & Multimedia A.G.)	100.0	100.0	-

Thomson Asia Pacific Holdings Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pacific Pte Ltd.)	100.0	100.0	100.0
Thomson Asia Pacific Investments Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pte Ltd.)	100.0	100.0	100.0
Thomson Broadband UK Ltd. (United Kingdom)	100.0	100.0	100.0
Thomson Consumer Electronics International SA (France)	100.0	100.0	100.0
Thomson Genlis SA (France) (Formerly GALLO 1)	100.0	100.0	100.0
Deutsche Thomson O.H.G. (Germany) (formerly Thomson Holding Germany GmbH & Co O.H.G.)	100.0	100.0	100.0
Thomson Holding Italy S.p.A. (Italy)	100.0	100.0	-
Thomson Licensing, Inc. (US)	100.0	100.0	100.0
Thomson Licensing (France)	100.0	100.0	100.0
Thomson multimedia Digital France (France)	100.0	100.0	100.0
Thomson, Inc. (US)	100.0	100.0	100.0

Company (country)	% share held by Thomson(% rounded to one decimal) December 31, 2006	December 31, 2005	December 31, 2004
Thomson multimedia Ltd. (Canada)	100.0	100.0	100.0
Thomson multimedia Polska sp.zo.o. (Poland) (formerly Thomson Polkolor sp.zo.o.)	100.0	100.0	100.0
Thomson multimedia Sales International SAS (France)	100.0	100.0	100.0
Thomson multimedia Sales UK Ltd. (United Kingdom)	100.0	100.0	100.0
Thomson multimidia do Brazil Ltda. (Brazil)	100.0	100.0	100.0
Thomson Optical Components Ltd. (Hong Kong) (formerly Broadcast Television Systems HK Ltd.)	100.0	100.0	100.0
Thomson Pensionsverwaltungs GmbH (Germany)	100.0	100.0	100.0
Thomson Sales Europe (France) (formerly Thomson multimedia Marketing France)	100.0	100.0	100.0
Thomson Silicon Components SAS. (France) (formerly Gallo 17 SAS.)	100.0	100.0	100.0
Thomson Telecom España SA (Spain)	100.0	100.0	100.0
Thomson Telecom SA (France)	100.0	100.0	100.0
Thomson Angers (France) (formerly Thomson Television Angers)	100.0	100.0	100.0
Thomson Television Components France (France)	100.0	100.0	100.0
Thomson Television España SA (Spain)	100.0	100.0	100.0
Thomson Vertriebs GmbH (Germany)	100.0	-	-
Consolidated Film Industries, LLC (US)	100.0	100.0	100.0
Convergent Media Systems Corp. (US)	100.0	-	-
Gallo 8 SAS. (France)	100.0	100.0	100.0
Nimbus Manufacturing (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Premier Retail Network, Inc. (US)	100.0	100.0	-
Technicolor Canada, Inc. (Canada)	100.0	100.0	100.0
Technicolor Creative Services Canada, Inc. (Canada) (formerly Covitec, Inc.)	100.0	100.0	100.0
Technicolor Creative Services USA, Inc. (US)	100.0	100.0	100.0
Technicolor Digital Cinema, LLC (US)	100.0	100.0	100.0
Technicolor Disc Services International Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Entertainment Services, S.L. (Spain) (formerly Madrid Film Lab, S.L.)	100.0	100.0	100.0
Technicolor Europe Ltd. (United Kingdom)	100.0	100.0	-
Technicolor Home Entertainment Services, Inc. (US) (formerly Technicolor Videocassette, Inc.)	100.0	100.0	100.0

Technicolor Holdings B.V. (Netherlands)	100.0	100.0	100.0
Technicolor Holdings, Inc. (US)	100.0	100.0	100.0
Technicolor Holdings Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Laboratory Canada, Inc. (Canada)	100.0	100.0	100.0
Technicolor Network Services UK Limited (United Kingdom) (formerly Corinthian Television Facilities Ltd.)	77.6	77.6	77.6
Technicolor Pty Ltd. (Australia)	100.0	100.0	100.0
Technicolor S.p.A. (Italy)	100.0	100.0	100.0
Technicolor Video Services (UK) Ltd. (United Kingdom)	100.0	100.0	100.0
Technicolor Video Servicios de Mexico, SA de C.V. (Mexico)	100.0	100.0	100.0
Technicolor Videocassette of Michigan, Inc. (US)	100.0	100.0	100.0
Technicolor Videocassette B.V. (Netherlands)	100.0	100.0	100.0

	% share held by Thomson(% rounded to one decimal)		
Company (country)	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Technicolor, Inc. (US)	100.0	100.0	100.0
Technicolor Universal Media Services LLC of America (US)	74.5	75.3	74.9
The Moving Picture Company Limited (United Kingdom)	100.0	100.0	100.0
2) Consolidated by pro rata method			
ContentGuard Holdings, Inc. (US)	25.2	25.2	-
Nagra Thomson Licensing (France) (formerly Canal+ Technologies SA)	50.0	50.0	50.0
Screenvision Holdings, Inc. (US) (formerly Technicolor Screen Advertising, Inc.)	50.0	50.0	50.0
Technicolor Cinema Advertising LLC (US)	50.0	50.0	50.0
Screenvision Belgium (Belgium) (formerly RMB Cinema)	50.0	50.0	50.0
Screenvision France SAS. (France) (formerly Circuit A SAS)	50.0	50.0	50.0
3) Accounted for under the equity method			
CTE El Athir (Tunisia)	30.0	30.0	30.0
Easyplug SAS. (France)	50.0	50.0	50.0
Easyplug, Inc. (US)	50.0	50.0	50.0
Techfund Capital Europe (France)	20.0	20.0	20.0
TCL Multimedia Technology Holding Ltd.	(**)	29.3	-

(*)

Entity merged into an other.

(**)

TCL Multimedia is no longer accounted for under the equity method and classified in 2006 as available-for-sale financial asset (See Note 17).

40 U.S. GAAP reconciliation

40.1 Summary of U.S. GAAP reconciling items impacting consolidated net income and shareholders equity

		For years ended December 31,		
(in € millions)		**2006**	**2005**	**2004**
Net income (loss) as reported in Consolidated Financial Statements under IFRS		**55**	**(573)**	**(561)**
	Less: minority interests	-	(1)	2
Net income (loss) attributable to equity holders in Consolidated Financial Statements under IFRS		**55**	**(574)**	**(559)**
a)	Share-based payments	(6)	7	(3)
b)	Development costs	(45)	(46)	(16)
c)	Convertible debt and other debts	(29)	17	(85)
d)	Pension and other post employment benefits	(163)	(19)	12
f)	Restructuring provision	19	(6)	6
g)	Recognition of non-contingent part of certain guarantees given	4	(4)	4
h)	Sale-and-leaseback transactions	(6)	5	5
i)	Long-term payables	(1)	(2)	(1)
j)	Hedging activities and other financial instruments	-	(11)	5
k)	Change in accounting principle	-	-	(43)
l)	Business combinations	-	(53)	(8)
m)	Cumulative translation adjustment	(6)	(34)	-
n)	Deemed costs - recognition of certain long lived assets at fair value	-	-	(11)
	Other	1	(1)	6
o)	Deferred tax	(22)	-	(7)
Net loss under U.S. GAAP		**(199)**	**(721)**	**(695)**

Impacts to our consolidated statement of operations of reconciling items except l) are before tax; tax effects are included in o) Deferred tax.

		As of December 31,		
(in € millions)		**2006**	**2005**	**2004**
Equity as reported in Consolidated Financial Statements under IFRS		**2,119**	**2,216**	**2,493**
	Less: minority interests	(7)	(7)	(18)
Equity attributable to equity holders as reported in Consolidated Financial Statements under IFRS		**2,112**	**2,209**	**2,475**
b)	Development costs	(127)	(84)	(34)
c)	Convertible debt and other debts	(500)	(500)	(85)
d)	Pension and other post employment benefits	6	149	115
e)	Commitment to purchase minority interests and future earn out payment	-	-	-
f)	Restructuring provision	(46)	(71)	(60)
g)	Recognition of non-contingent part of certain guarantees given	-	(4)	-
h)	Sale-and-leaseback transactions	(11)	(4)	(8)
i)	Long-term payables	(3)	(3)	(1)
j)	Hedging activities and other financial instruments	10	8	-
l)	Business combinations	43	61	102
n)	Deemed costs - recognition of certain long lived assets at fair value	5	6	6
	Other	5	9	3
o)	Deferred tax	(26)	(5)	(21)
Shareholders equity under U.S. GAAP		**1,468**	**1,771**	**2,492**

Impacts to our shareholders equity of reconciling items except l) are before tax; tax effects are included in o) Deferred tax

40.2 Differences between Accounting Principles followed by Thomson and Generally Accepted Accounting Principles in the United States (U.S. GAAP)

Thomson prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Commission for use in the European Union (IFRS). Its main accounting policies are disclosed in Note 2 to the consolidated financial statements. The significant differences between Thomson s accounting policies and U.S. GAAP are described in this note.

(a) Share-based payments

Under IFRS equity-settled share-based payments are measured at fair value at the grant date. They are accounted for as a compensation expense over the vesting period of the plans, based on the Group s estimate of the number of options that will vest.

In addition, as permitted by IFRS 1, Thomson has opted to exclude all stock options plans granted before November 7, 2002 and fully vested before January 1, 2005 from the application of IFRS 2, and as such, these options are accounted for by Thomson using a provision of French GAAP that allows for no recognition of compensation expense. As a result, the first time application exception was applied to stock options plans 1, 2 and part of plan 3, the BASA plan, the first award of TTE retention plan and employee offerings (Note 29).

For share-based payments that are cash-settled, a liability equal to the portion of the goods or services received is recognized at fair value and re-measured at each balance sheet date.

Until December 31, 2005 under U.S. GAAP, all stock options plans were (except TTE retention plan) accounted for by Thomson using the intrinsic value as prescribed by APB 25 Accounting for Stock issued to Employees . When stock option plans were amended, which occurred in connection with the public tender offer made by Thomson in September 2004, U.S. GAAP required accounting based on the incremental intrinsic value of the options granted, with subsequent re-measurement at each balance sheet date of the then determined intrinsic value, with changes being recorded through the statement of operations.

Under U.S. GAAP, compensation expense for awards with graded vesting schedule is recognized as it would be if awards are viewed as several separate awards. For options granted to non-employees, Thomson accounts for compensation expense based on fair value measurement with subsequent changes in fair value being recorded in the statement of operations until the end of the vesting period.

Thomson adopted FAS 123 (R) Share-Based Payment for the period beginning January 1, 2006 (the effective date). In accordance with the transition application of FAS 123 (R) Thomson applied the modified prospective application method and recognizes compensation cost on or after the effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under proforma disclosure requirement of FAS 123. Thomson did not elect to apply for the retrospective application for prior periods presented. For awards granted after the effective date, Thomson applies FAS 123 (R) and recognizes compensation cost based on the grant-date fair value.

As a result, the statement of operations impacts related to share-based payment may differ between IFRS and U.S. GAAP as follows:

	IFRS				**U.S. GAAP**				
(in € millions)	**Method of accounting**	**Compensation expense**			**Method of accounting**		**Compensation expense**		
	2006, 2005 and 2004	**2006**	**2005**	**2004**	**2006**	**2005 and 2004**	**2006**	**2005**	**2004**
Plan 1 [(1)]	n/a	n/a	n/a	n/a	n/a	Intrinsic value	-	-	-
Plan 2 [(1)]	n/a	n/a	n/a	n/a	n/a	Intrinsic value	-	-	-
Plan 3 [(1)]	Fair value	(5)	(5)	(2)	Fair value	Intrinsic value (partly variable accounting)	(11)	(2)	(1)
Plan 4	Fair value	(1)	(1)	n/a	Fair value	Intrinsic value	(1)	-	n/a
Plan 5	Fair value	(3)	-	n/a	Fair value	Intrinsic value	(3)	-	n/a
Plan 6	Fair value	(1)	n/a	n/a	Fair value	n/a	(1)	n/a	n/a
TTE retention plan [(1)]	Fair value	(1)	(2)	(1)	Fair value	Fair value	(1)	(3)	(4)
BASA plan [(1)]	n/a	n/a	n/a	n/a	n/a	Intrinsic value	n/a	-	-
Inventel/Cirpack	Fair value	(2)	(4)	n/a	Fair value	Intrinsic value	(2)	-	n/a
Employee offering [(1)]	n/a	n/a	n/a	n/a	Fair value	Intrinsic value	n/a	-	(1)
TOTAL		**(13)**	**(12)**	**(3)**			**(19)**	**(5)**	**(6)**

(1)

Stock option plans scoped out under IFRS because granted before November 7, 2002 and fully vested as of January 1, 2005 (1st award of TTE retention plan granted and fully vested in 2004 and rollover of plan 1 and 2 into plan 3 are scoped out).

Had the compensation cost for stock options awarded under these plans been determined based on the fair value at the date of grant consistent with the methodology of SFAS 123 Accounting for Stock-Based Compensation for years ended December 31, 2005 and 2004, Thomson s net loss and basic and diluted earnings per share would have reflected the following pro forma amounts:

	For years ended December 31,	
(in € millions except earning per share in € per share)	**2005**	**2004**
U.S. GAAP net loss available to common shareholders (Note 40.3.2):		
- for basic earning per share calculation	(721)	(695)
- for diluted earning per share calculation	(793)	(711)
Basic loss per share	(2.70)	(2.54)
Diluted loss per share	(2.70)	(2.38)
Add back: stock-based employee compensation expense included in reported net income net of related tax effects	5	6
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(18)	(25)
Pro forma U.S. GAAP net loss available to common shareholders:		
- for basic earning per share calculation	(734)	(714)
- for diluted earning per share calculation	(806)	(730)
Pro forma basic loss per share	(2.75)	(2.61)
Pro forma diluted loss per share	(2.74)	(2.44)

The weighted-average grant-date fair values of equity options granted during the period were €3.2, €4.1 and €6.5 for years ended December 31, 2006, 2005 and 2004, respectively.

The total intrinsic value of options exercised during the period were €3 million, nil and €3 million for years ended December 31, 2006, 2005 and 2004, respectively.

As of December 31, 2006, the aggregate intrinsic value for outstanding options amounts to €8 million (of which nil for options currently exercisable). The total compensation cost related to nonvested awards not yet recognized amounts to €26 million, for a weighted-average period of 2 years over which such cost is expected to be recognized. During year ended December 31, 2006 the only options exercised was the TTE retention plan (3rd award) and no cash was received by Thomson (exercise price was zero).

(b) Development costs

Under IFRS, development projects are capitalized and recognized as intangible assets at costs when certain criteria are met (IAS 38 Intangible Assets), otherwise such costs are expensed as incurred.

Under U.S. GAAP, capitalization of development costs is prohibited (SFAS 2 Accounting for Research and Development Costs), unless they pertain to specific elements of internally developed computer software (SFAS 86 Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed). In addition in-process research and development recognized as an identifiable asset in a business combination under IFRS is measured and expensed in the period the purchase price allocation is completed under U.S. GAAP.

As a result, all costs incurred related to development projects that do not relate to internally developed computer software and that have been capitalized under IFRS have been expensed as incurred under U.S. GAAP. Amortization expenses recorded under IFRS are reversed under U.S. GAAP.

The impacts of the above differences on the consolidated statements of operations and consolidated balance sheets are presented in the table below:

	December 31,		
(in € millions)	**2006**	**2005**	**2004**
Statement of operations			
Research and development expense that cannot be capitalized	(45)	(46)	(16)
Income tax	16	16	2
Loss from continuing operations	(29)	(30)	(14)
Profit (loss) from discontinued operations	-	-	-
Net loss	(29)	(30)	(14)
Balance sheet			
Decrease of other intangible assets (gross value)	(202)	(125)	(55)
Increase of other intangible assets (acc. amortization)	75	41	21
Increase of non-current assets	34	18	2
Decrease of net equity [(1)]	(93)	(66)	(32)

(1)

Of which €34 million, €18 million and €2 million of tax as of December 31, 2006, 2005 and 2004 respectively.

(c) Convertible debt and other debts

(i) Accounting for subordinated perpetual debt

Under IFRS as detailed in Note 23, our €500 million perpetual subordinated debt, issued in 2005, has been accounted in equity for the net value received of €492 million (issue price less offering discount and fees) because it meets the definition of equity as it is not redeemable and each annual interest is due to note holders only in the case Thomson s annual shareholders meeting approves the payment of dividends or there have been share buybacks in the six months prior to the interest payment date. Under U.S. GAAP, this financial instrument does not meet the definition of equity and is classified as financial debt.

In addition, and mainly due to the different nature of the instrument under IFRS and U.S. GAAP, interest is recognized within equity as a payment of dividends under IFRS, whereas it is recognised as financial expense in the statement of operations under U.S. GAAP. Under IFRS, such interest is not considered as a liability until it is contractually due (i.e. if and when dividends of a fiscal year have been voted at the next year shareholders meeting or if Thomson purchased treasury shares six months prior to the interest payment due date). Under U.S. GAAP, as payment of interest is considered probable, interest is accrued during each period (regardless of whether or not the interest becomes contractually due as described above).

As a consequence, for the periods ended December 31, 2006 and 2005, Thomson has reported interest expense amounting to respectively €29 million and €8 million under U.S. GAAP (nil in 2004).

(ii) Accounting for “conventional convertible debt

Under IFRS, IAS 39 Financial Instruments: Recognition and Measurement requires split accounting when a financial instrument such as a convertible debt contains both a liability component and an equity component, like an option to convert part or all of the repayment obligation into Thomson shares. Interest expense is recognized on the debt component at the effective rate.

Before the application of IAS 39 from January 1, 2005 onwards, Thomson applied French GAAP for all financial instruments. Under French GAAP, conventional convertible debts were accounted for entirely as a financial debt at their nominal value, and interest calculated was based on the nominal rate.

Under U.S. GAAP, conventional convertible debt (i.e., all of Thomson s convertible debt, except the bond issued to Silver Lake Partners LLC as further described in Note 25 to our consolidated financial statements) does not imply the recognition of an embedded derivative and no split accounting is required. Thomson s conventional convertible debts are recognized on the balance sheet at their nominal values with interest expense determined based on nominal interest rate. Issuance costs are amortized using the effective interest method.

As a consequence this difference decreases the financial expense of the Group under U.S. GAAP compared to IFRS by an amount of €1 million, €25 million and nil for the years ended December 31, 2006, 2005 and 2004, respectively.

(iii) Bonds convertible into shares or redeemable in cash or in shares (bond issued to Silver Lake Partners LLC))

Before the application of IAS 32/39 from January 1, 2005 onwards, Thomson applied French GAAP for all financial instruments. Under French GAAP, convertible bonds are accounted for entirely as financial debt and issuance costs are accounted for as an asset and amortized over the debt term.

Under U.S. GAAP, since our subordinated bonds issued on September 16, 2004 are (i) redeemable in U.S. dollars or (ii) convertible into newly issued ordinary shares or existing ordinary shares (or a combination of both), which, at the option of the bondholders, may be delivered in the form of American Depositary Shares evidencing such ordinary shares (the Bonds), the embedded conversion option feature has been bifurcated and accounted separately in long-term liabilities.

The conversion option feature and the debt component are recognized at fair value at inception. Subsequent changes of the fair value of the embedded derivative have been recorded as a financial income or expense in the consolidated statement of operations under U.S. GAAP.

The allocation of a portion of the proceeds of the bonds to the embedded derivative and issuance costs creates a discount on issuance which is being amortized to earnings over the life of the bonds under U.S. GAAP.

The accounting treatment under IAS 32/39 of bonds convertible into shares or redeemable in shares is similar to the U.S. GAAP treatment described above. As a result, since the first application of IAS 32/39, (starting January 1, 2005), no difference remains related to this particular financial instrument.

For the year ended December 31, 2004, under U.S. GAAP, the embedded conversion option feature bifurcated from the debt component of the convertible debt instrument amounted to €45 million at inception. Subsequent changes in fair value and amortization of the discount required Thomson to recognize an additional non-cash financial expense amounting to €85 million for the year ended December 31, 2004 (nil in 2006 and 2005), compared to IFRS. Under IFRS, such amount has been recorded in equity as of January 1, 2005, in compliance with the transition application of IAS 32/39.

(iv) Costs of debt issuance classification

Under IFRS, the costs related to the issuance of debt is capitalized and amortized over the estimated useful life of the underlying financial instrument, while the debt is presented net of unamortized costs of issuance.

Under U.S. GAAP, costs of issuance are recognized as an asset and amortized over the estimated useful life of the underlying financial instrument, using the effective interest method.

As a result other non current assets and financial debt are increased by €8 million, €20 million and €10 million as of December 31, 2006, 2005 and 2004, respectively.

The impacts of the above differences on our consolidated statement of operations and our consolidated balance sheets are shown in the table below:

	December 31,		
(in € millions)	**2006**	**2005**	**2004**
Statement of operations			
Financial result [(1)]	(29)	17	(85)
Income tax	-	3	-
Profit (loss) from continuing operations	(29)	20	(85)
Profit (loss) from discontinued operations	-	-	-
Net income (loss)	(29)	20	(85)
Balance sheet			
Increase of other non current assets (issuance cost of debt)	16	20	10
Increase of debt	514	517	-
of which short term portion	*8*	*8*	-
Increase of other financial instruments	-	-	95
Decrease of net equity [(2)]	(498)	(497)	(85)

(1)

2004 financial expense has been recorded within equity as of January 1, 2005 under IFRS in compliance with the transition application of IAS 32/39.

(2)

Of which €2 million and €3 million of tax as of December 31, 2006 and 2005, respectively.

(d) Pension and other post-employment benefits

Differences between IFRS and U.S. GAAP accounting for pension and other post-employment benefits are mainly due to (i) the impact of the exception provided by IFRS 1 First Time Adoption , (ii) the additional minimum pension liability recognized under U.S. GAAP until December 31, 2006 that does not exist in IFRS, (iii) the option of IAS 19 Employee Benefits , as revised, to recognize actuarial gains or losses immediately against equity whereas they are amortized using the corridor method under U.S. GAAP and (iv) the adoption by Thomson of FAS 158 Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans as of December 31, 2006 under U.S. GAAP.

Under IFRS, following the transitional provisions of IFRS 1 First Time Adoption , the Group recognized all unrecognized actuarial gains and losses existing as of January 1, 2004 against equity. In addition, Thomson elected to apply the option of IAS 19, which allows the recognition of all actuarial gains and losses generated over the period against equity through the Statement of Recognised Income and Expense.

Under U.S. GAAP, Thomson adopted FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (FAS 158) , at the end of 2006. This statement requires employers to recognize in their balance sheets the funded status of defined benefit post-retirement plans, measured as the difference between the fair

value of plan assets and the benefit obligation. Employers must recognize the change in the funded status of the plan in the year in which the change occurs through Accumulated Other Comprehensive Income (AOCI). Therefore, actuarial gains and losses, prior service costs or credits, and any remaining transition assets of obligations that have not been recognized are recognized in Accumulated Other Comprehensive Income, net of tax effect, until they are amortized as a component of net periodic benefit cost. The adoption of FAS 158 had no impact on years prior to 2006, as retrospective application was not allowed.

Prior to the adoption of FAS 158, the Company accounted for its defined benefit post-retirement plans under FAS 87, Employers Accounting for Pensions , FAS 106, Employers Accounting for Postretirement Benefits Other Than Pensions and FAS 88 Employer s Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits . Under these statements, all IFRS impacts on equity were reversed, and the actuarial gains and losses, at the IFRS transition date and those created on subsequent years continued to be amortized over the employee s remaining service period. In addition, the minimum liability adjustment was charged to other comprehensive income or intangible asset.

The measurement date of the projected benefit obligation and the fair value of the plan assets is December 31, each year.

As mentioned in Note 27, the plan changes for the medical benefits, which occurred in 2006, have been treated as curtailments under IFRS with the corresponding gain recognized in the 2006 statement of operations (€167 million). Under U.S. GAAP, such plan changes have been treated (i) as a curtailment for the elimination of coverage before age 50 and (ii) as a negative plan amendment for the elimination of post 65 years old coverage and cost sharing increase. Related impacts have therefore been recorded (i) as a gain in the statement of operations for the curtailment impact (€18 million) and (ii) as unrecognized prior service cost for the negative plan amendment (€151 million, of which €4 million of gain is amortized in the statement of operations for year ended December 31, 2006; the prior service cost being amortized under U.S. GAAP based on the remaining life expectancy of participants).

The net accruals as of December 31, 2006, 2005 and 2004 in the accompanying consolidated balance sheets can be compared with balances determined under U.S. GAAP as follows:

	December 31, 2006			**December 31, 2005**			**December 31, 2004**		
(in € millions)	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**
Net pension accrual under IFRS	**(438)**	**(134)**	**(572)**	**(494)**	**(445)**	**(939)**	**(494)**	**(356)**	**(850)**
Reclassification to other liabilities (1)	11	-	11	16	-	16	28	-	28
Curtailment difference (2)	(4)	-	(4)						
Reimbursement right recognized as an asset	-	1	1	-	65	65	-	43	43
Unrecognized actuarial (gain) loss	n/a	n/a	n/a	145	138	283	114	111	225
Prior service costs	1	2	3	3	(16)	(13)	1	(15)	(14)
Minimum Liability Adjustment	n/a	n/a	n/a	(125)	-	(125)	(98)	-	(98)
Net pension accrual under U.S. GAAP before held for sale reclassification	**(430)**	**(131)**	**(561)**	**(455)**	**(258)**	**(713)**	**(449)**	**(217)**	**(666)**
Held for sale reclassification (3)	-	-	-	1	-	1	25	-	25
Net pension accrual under U.S. GAAP after held for sale reclassification	**(430)**	**(131)**	**(561)**	**(454)**	**(258)**	**(712)**	**(424)**	**(217)**	**(641)**

(1)

Corresponds to early retirement plans.

(2)

Non-specific voluntary termination offers not accepted at the balance sheet date are not taken into consideration for the determination of the curtailment under U.S. GAAP.

(3)

Corresponds to Anagni plant pension liabilities classified as held-for-sale under US GAAP as of December 31, 2004 (not under IFRS since IFRS 5 only applies from January 1, 2005 onwards).

The following table presents the incremental effects of applying FAS 158 as well as the change to the Minimum Liability Adjustment (MLA) as a result of the annual actuarial valuation associated with the benefit plans on Thomson s consolidated balance sheet as of December 31, 2006 for all plans combined:

(in € millions)	**Before FAS 158 application**	**FAS 158MLA reversal**	**OtherFAS 158 adjustment**	**After application of FAS 158**
Intangible asset	2	(2)	-	-
Accrued pension liability	(629)	97	(29)	(561)
Accumulated Other Comprehensive Income– pension (Note 40.3.1)	719	(95)	29	653

Additional disclosures in accordance with SFAS 132R and FAS 158 are as follows:

	December 31, 2006			December 31, 2005			December 31, 2004		
(in € millions)	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits
Change in Benefit Obligation									
Benefit Obligation at beginning of year	**(663)**	**(366)**	**(1,029)**	**(646)**	**(298)**	**(944)**	**(707)**	**(436)**	**(1,143)**
Reclassification of early retirement plans and jubilee awards under other reserves [(1)]	-	-	-	-	-	-	38	-	38
Service cost	(19)	(1)	(20)	(18)	(2)	(20)	(23)	(4)	(27)
Interest cost	(29)	(15)	(44)	(31)	(19)	(50)	(33)	(20)	(53)
Amendments	-	150	150	-	-	-	(3)	103	100
Business combinations	(6)	-	(6)	24	-	24	9	-	9
Plan participants contributions	(1)	(8)	(9)	(1)	(7)	(8)	(1)	(4)	(5)
Curtailment/Settlement	34	9	43	48	-	48	46	5	51
Actuarial (loss) gain	12	49	61	(45)	(12)	(57)	(27)	17	(10)
Benefits paid	36	24	60	30	22	52	37	19	56
Change in measurement date	-	-	-	12	(3)	9	-	-	-
Others (foreign currency translation)	19	27	46	(36)	(47)	(83)	18	22	40
Benefit Obligation at end of year	**(617)**	**(131)**	**(748)**	**(663)**	**(366)**	**(1,029)**	**(646)**	**(298)**	**(944)**
Change in Plan Assets									
Fair value of plan assets at beginning of year	**183**	**-**	**183**	**184**	**-**	**184**	**221**	**-**	**221**
Actual return on plan assets	15	-	15	19	-	19	21	-	21
Thomson contribution	37	-	37	24	-	24	16	-	16
Plan participants contributions	1	-	1	1	-	1	1	-	1
Curtailment/Settlement	(27)	-	(27)	(45)	-	(45)	(55)	-	(55)
Business combinations	-	-	-	-	-	-	(2)	-	(2)
Benefits paid	(13)	-	(13)	(9)	-	(9)	(8)	-	(8)
Change in measurement date	-	-	-	(12)	-	(12)	-	-	-
Others (foreign currency translation)	(9)	-	(9)	21	-	21	(10)	-	(10)

Fair value of plan assets at end of year	**187**	**-**	**187**	**183**	**-**	**183**	**184**	**-**	**184**
Funded status of the plan	**(430)**	**(131)**	**(561)**	**(480)**	**(366)**	**(846)**	**(462)**	**(298)**	**(760)**
Unrecognized actuarial (gains) or losses (3)	n/a	n/a	n/a	145	138	283	114	110	224
Unrecognized actuarial prior service cost (3)	n/a	n/a	n/a	-	(30)	(30)	(3)	(29)	(32)
Unrecognized actuarial transition obligation (3)	n/a	n/a	n/a	-	-	-	-	-	-
(Accrued)/prepaid benefit cost (2)	**(430)**	**(131)**	**(561)**	**(335)**	**(258)**	**(593)**	**(351)**	**(217)**	**(568)**

(1)

Jubilee awards and early retirement plans are classified under other liabilities .

(2)

For each period presented above, no prepaid benefit cost is recognized at each balance sheet date.

(3)

No longer required as of December 31, 2006 since the application of FAS 158.

Items not yet recognized as a component of net periodic benefit cost and accounted for in the accumulated other comprehensive income (Note 40.3.1) as of December 31, 2006 in accordance with FAS 158 are as follows:

(in € millions)	December 31, 2006		
	Pension benefits	**Other benefits**	**Total benefits**
Unrecognized actuarial (gain)/losses	114	62	176
Unrecognized transition obligation	-	-	-
Unrecognized prior service cost [1]	1	(148)	(147)
TOTAL ITEMS RECOGNIZED THROUGH AOCI UNDER FAS 158	**115**	**(86)**	**29**

(1)

Unrecognized prior service cost mainly relates to the negative medical plan amendment that occurred in 2006 (see below).

For the year ended December 31, 2007 amortization of actuarial gain/losses and prior service cost is expected to amount to €12 million and € (24) million, respectively.

For Thomson's defined benefit pension plans, the benefit obligation and the accumulated benefit obligation were in excess of plan assets at December 31, 2006, 2005 and 2004. The accumulated benefit obligation ("ABO") was equal to €582 million, €607 million and €614 million as of December 31, 2006, 2005 and 2004, respectively.

Amounts recognized in the consolidated balance sheet are as follows:

	December 31, 2006			December 31, 2005			December 31, 2004		
(in € millions)	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**
Prepaid (Accrued) benefit cost	**(430)**	**(131)**	**(561)**	**(335)**	**(258)**	**(593)**	**(351)**	**(217)**	**(568)**
Minimum Liability Adjustment (MLA):									
Included in other comprehensive income	n/a	n/a	n/a	(124)	-	(124)	(97)	-	(97)
Included in intangible asset	n/a	n/a	n/a	(1)	-	(1)	(1)	-	(1)
TOTAL MINIMUM LIABILITY ADJUSTMENT [1]	**n/a**	**n/a**	**n/a**	**(125)**	**-**	**(125)**	**(98)**	**-**	**(98)**
Accrued benefit liability (including MLA)	(430)	(131)	(561)	(460)	(258)	(718)	(449)	(217)	(666)
Prepaid benefit cost	-	-	-	-	-	-	-	-	-
Net amount accrued for under U.S. GAAP	**(430)**	**(131)**	**(561)**	**(460)**	**(258)**	**(718)**	**(449)**	**(217)**	**(666)**

before held for sale reclassification									
Held for sale reclassification	-	-	-	6	-	6	25	-	25
Net amount accrued for under U.S. GAAP after held for sale reclassification	**(430)**	**(131)**	**(561)**	**(454)**	**(258)**	**(712)**	**(424)**	**(217)**	**(641)**

(1)

Since adoption of FAS 158 as of December 31, 2006, MLA is no longer required.

Amounts recognized in the consolidated statement of operations are as follows:

	December 31, 2006			December 31, 2005			December 31, 2004		
(in € millions)	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**	**Pension benefits**	**Other benefits**	**Total benefits**
Service cost	(19)	(1)	(20)	(18)	(2)	(20)	(23)	(4)	(27)
Expected interest cost	(29)	(15)	(44)	(31)	(19)	(50)	(33)	(20)	(53)
Expected return on plan assets	11	-	11	11	-	11	13	-	13
Amortization of unrecognized prior service cost	-	7	7	-	3	3	(1)	4	3
Amortization of actuarial net losses	(6)	(6)	(12)	(4)	(7)	(11)	(4)	(7)	(11)
Amortization of net transition obligation	-	-	-	-	-	-	(2)	-	(2)
Effect of curtailment/settlement	1	18 (1)	19	(4)	-	(4)	(15)	33	18
Net periodic benefit cost under U.S. GAAP	**(42)**	**3**	**(39)**	**(46)**	**(25)**	**(71)**	**(65)**	**6**	**(59)**

(1)

Corresponds to the curtailment gain on medical plan occurred in 2006 (Note 27).

The following benefit payments, which reflect expected future services, are expected to be made for the next five years and the five years thereafter:

(in € millions)	**Pension benefits**	**Other benefits**	**Total benefits**
2007	61	17	78
2008	43	11	54
2009	43	10	53
2010	43	9	52
2011	38	9	47
5 years thereafter	257	40	296

(e) Commitment to purchase minority interests and future earn out payment

(i) Commitment to purchase minority interests

Under IFRS, as required by IAS 32/39, commitments to purchase minority interests are recognized as financial debt for the present value of the redemption amount under the put option. Consequently the related existing minority interest is reversed and the remaining balance is recorded in goodwill.

Such accounting treatment has been applied from January 1, 2005 onwards. Until that date, Thomson was applying the provision of French GAAP for all financial instruments and therefore accounted for such commitments as off-balance sheet items.

Under U.S. GAAP, except in limited circumstances as described in FAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , embedded put options to acquire minority interests are recognized as off balance sheet commitments. In other cases under U.S. GAAP, no liability should be recognized related to any commitment given unless it is probable that a liability exists.

As of December 31, 2006, 2005 and 2004, Thomson has a put option to acquire all of the remaining shares of one of its consolidated subsidiaries for which the put granted and the call received are not symmetric in terms of value or timing.

As a consequence under U.S. GAAP, minority interests on the balance sheet are increased by €5 million, while goodwill is decreased by €7 million and other debt is decreased by €12 million as of December 31, 2006 (respectively €8 million, €4 million and €12 million as of December 31, 2005) and nil as of December 31, 2004.

(ii) Future earn out payment

Under IFRS, as required by IAS 37, Provisions, Contingent Liabilities and Contigent Assets contingent consideration issued in a business combination is accounted as part of the consideration paid when the future payment is determined to be probable.

Under U.S. GAAP, FAS 141 Business Combination requires contingent consideration to be accounted for as an additional cost of the acquired entity when the contingency is resolved.

As of December 31, 2006 as part of one of its acquisition, Thomson may have to pay a contingent consideration and assessed that the payment of this future consideration was probable at the balance sheet date.

As a consequence under U.S. GAAP, goodwill on the balance sheet is decreased by €2 million and other debt is decreased by the same amount as of December 31, 2006.

(f) Restructuring provision

The Group applies the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets in order to assess restructuring liabilities at the closing date. This standard defines certain criteria to be met in order to provide for costs of a restructuring plan.

Under U.S. GAAP, criteria for recognizing a restructuring liability are more stringent than under IFRS, as U.S. GAAP provides additional criteria to recognize a liability in comparison with IAS 37. FAS 146 Accounting for Costs Associated with Exit or Disposal Activities requires that the communication of the benefit arrangement include sufficient detail to enable employees to determine the type and amount of benefits they will receive if their employment contracts are terminated.

In addition, FAS 146 requires the costs to terminate a contract to be provided for at the date the third party is notified of such decision or at the cease-use date in the case of a lease agreement. Under IFRS, the accrual is recorded at the announcement that the facility will be vacated.

Furthermore, the provisions of EITF 95-3 Recognition of Liabilities in Connection with a Purchase Business Combination allow costs of a restructuring plan of an acquired entity to be charged against goodwill, when certain conditions are met. Under IFRS, no such restructuring plan costs are charged against goodwill, but they are expensed in the period the plan is announced.

The impact of U.S. GAAP adjustments related to restructuring provision is detailed as follows:

(in € millions)	**December 31, 2005**	**Current year expense**	**Cash payments**	**Release of reserve to income**	**Change in scope of conso-lidation**	**Other**	**Held for sale change**	**December 31, 2006**
IFRS restructuring reserve	**54**	**154**	**(82)**	**(31)**	**-**	**(4)**	**29**	**120**
Non specific voluntary termination offer not accepted at balance sheet	(1)	(27)	-	-	-	(1)	-	(29)

date								
Non specific involuntary termination arrangements	(3)	3	-	-	-	-	-	-
Future loss on non ceased contract	(1)	1	-	-	-	-	-	-
Cost to move inventory	(2)	(1)	3	-	-	-	-	-
Other adjustments including non eligible asset write-downs	2	(4)	1	2	-	(2)	-	(1)
TOTAL U.S. GAAP ADJUSTMENTS	**(5)**	**(28)**	**4**	**2**	**-**	**(3)**	**-**	**(30)**
Reclassification of asset write-downs	(1)	(2)	-	-	-	2	-	(1)
Reclassification to other cost of sales	-	(4)	-	-	-	4	-	-
TOTAL U.S. GAAP RECLASSIFICATIONS	**(1)**	**(6)**	**-**	**-**	**-**	**6**	**-**	**(1)**
U.S. GAAP restructuring reserve	**48**	**120**	**(78)**	**(29)**	**-**	**(1)**	**29**	**89**

(in € millions)	December 31, 2005	Current year expense	Cash payments	Release of reserve to income	Change in scope of consolidation	Other	Held for sale change	December 31, 2006
Employee termination benefits	14	91	(58)	(11)	-	(6)	15	45
Other costs	34	29	(20)	(18)	-	5	14	44
U.S. GAAP RESTRUCTURING RESERVE	**48**	**120**	**(78)**	**(29)**	**-**	**(1)**	**29**	**89**

Reconciliation of restructuring expense is as follows:

	For the year ended December 31, 2006		
(in € millions)	Restructuring charge	Impact on other captions of statement of operations	Net income impact
Restructuring expense under IFRS	**(123)**		
U.S. GAAP restructuring adjustments [(1)]	26	-	26
U.S. GAAP reclassifications	6	(6)	-
Cash payment in 2006 not classified as restructuring expense under U.S. GAAP	-	(4)	(4)
Other	-	(3)	(3)
TOTAL IMPACT OF U.S. GAAP ADJUSTMENTS AND RECLASSIFICATIONS	**32**	**(13)**	**19**
Restructuring expense under U.S. GAAP	**(91)**		

(1)

Related adjustment mainly corresponds to restructuring plans for which voluntary termination offers not accepted at balance sheet date are not accrued as of December 31, 2006 under U.S. GAAP.

(in € millions)	December 31, 2004	Current year expense	Cash payments	Release of reserve to income	Change in scope of consolidation	Other	Held for sale	December 31, 2005
IFRS restructuring reserve	**76**	**130**	**(92)**	**(17)**	**(17)**	**8**	**(34)**	**54**

Non specific voluntary termination offer not accepted at balance sheet date	(2)	-	-	-	-	1	-	(1)
Non specific involuntary termination arrangements	(3)	(1)	-	-	-	1	-	(3)
Future loss on non ceased contract	(2)	2	-	-	-	(1)	-	(1)
Cost to move inventory	(1)	(1)	-	-	-	-	-	(2)
Reengineering and consulting costs	(1)	(3)	4	-	-	-	-	-
Other adjustments including non eligible asset write-downs	1	(4)	4	-	1	(1)	1	2
TOTAL U.S. GAAP ADJUSTMENTS	**(8)**	**(7)**	**8**	**-**	**1**	**-**	**1**	**(5)**
Reclassification of asset write-downs	(1)	(5)	-	3	-	2	-	(1)
Reclassification to other cost of sales	-	(1)	-	-	-	1	-	-
TOTAL U.S. GAAP RECLASSIFICATIONS	**(1)**	**(6)**	**-**	**3**	**-**	**3**	**-**	**(1)**
U.S. GAAP restructuring reserve	**67**	**117**	**(84)**	**(14)**	**(16)**	**11**	**(33)**	**48**

(in € millions)	**December 31, 2004**	**Current year expense**	**Cash payments**	**Release of reserve to income**	**Change in scope of consolidation**	**Other**	**Held for sale**	**December 31, 2005**
Employee termination benefits	29	84	(58)	(13)	(18)	8	(18)	14
Other costs	38	33	(26)	(1)	2	3	(15)	34
U.S. GAAP RESTRUCTURING RESERVE	**67**	**117**	**(84)**	**(14)**	**(16)**	**11**	**(33)**	**48**

Reconciliation of restructuring expense is as follows:

	For the year ended December 31, 2005		
(in € millions)	**Restructuring charge**	**Impact on other captions of statement of operations**	**Net income impact**
Restructuring expense under IFRS	**(113)**		
U.S. GAAP restructuring adjustments	7	-	7
U.S. GAAP reclassifications	3	(3)	-
Cash payment in 2005 not classified as restructuring expense under U.S. GAAP	-	(8)	(8)
Change in scope - impact on capital loss (1)	-	(1)	(1)
Other	-	(4)	(4)
TOTAL IMPACT OF U.S. GAAP ADJUSTMENTS AND RECLASSIFICATIONS	**10**	**(16)**	**(6)**
Restructuring expense under U.S. GAAP	**(103)**		

(1)

Related change in scope adjustment corresponds to disposals.

(in € millions)	**December 31, 2003**	**Current year expense**	**Cash payments**	**Release of reserve to income**	**Change in scope of consolidation**	**Other**	**Held for sale**	**December 31, 2004**
IFRS restructuring reserve	**95**	**820**	**(195)**	**(19)**	**2**	**(627)**	**-**	**76**

Non specific voluntary termination offer not accepted at balance sheet date	(6)	4	-	-	-	-	-	(2)
Non specific involuntary termination offer	(1)	(2)	-	-	-	-	-	(3)
Futures losses on non ceased contract	(9)	(1)	2	-	6	-	-	(2)
Cost to move inventory	(1)	(1)	1	-	-	-	-	(1)
Reengineering or consulting costs	(1)	(5)	5	-	-	-	-	(1)
Marion SFAS 88 (1)	9	(9)	-	-	-	-	-	-
Other adjustment including non eligible asset write-downs	-	(5)	5	-	3	(2)	-	1
TOTAL U.S. GAAP ADJUSTMENTS	**(9)**	**(19)**	**13**	**-**	**9**	**(2)**	**-**	**(8)**
Curtailment on post employment reserve (2)	-	(43)	-	-	2	41	-	-
Reclassification of asset write-downs	(1)	(597)	-	-	(5)	602	-	(1)
Reclassification to other costs of sales	-	(11)	-	-	-	11	-	-
TOTAL U.S. GAAP RECLASSIFICATIONS	**(1)**	**(651)**	**-**	**-**	**(3)**	**654**	**-**	**(1)**
U.S. GAAP restructuring reserve	**85**	**150**	**(182)**	**(19)**	**8**	**25**	**-**	**67**

(1)

In accordance with the provision of FAS 88, Thomson recorded termination costs in 2003 upon its decision to close the Marion plant Line 3. Such costs were recognized in 2004 under IFRS.

(2)

Under IFRS, the effects of curtailments on post employment benefit obligations are recognized as restructuring expenses or income. Under U.S. GAAP those effects are reported as net periodic pension costs.

(in € millions)	**December 31, 2003**	**Current year expense**	**Cash payments**	**Release of reserve to income**	**Change in scope of consolidation**	**Other**	**Held for sale**	**December 31, 2004**
Employee termination costs	74	98	(159)	(7)	4	19	-	29
Other costs	11	52	(23)	(12)	4	6	-	38
U.S. GAAP restructuring reserve	**85**	**150**	**(182)**	**(19)**	**8**	**25**	**-**	**67**

Reconciliation of restructuring expense is as follows:

	For the year ended December 31, 2004		
(in € millions)	**Restructuring charge**	**Impact on other captions of statement of operations**	**Net income impact**
Restructuring expense under IFRS	**(801)**		
U.S. GAAP restructuring adjustments	19	-	19
U.S. GAAP reclassifications	651	(651)	-
Cash payment in 2004 not classified as restructuring expense under U.S. GAAP	-	(13)	(13)
Change in scope - impact on capital gain (loss) (1)	-	-	-
TOTAL IMPACT OF U.S. GAAP ADJUSTMENTS AND RECLASSIFICATIONS	**670**	**(664)**	**6**
Restructuring expense under U.S. GAAP	**(131)**		

(1)

No impact on the statement of operations since the change in scope for the year 2004 only relates to business combinations.

(g) Recognition of non-contingent part of certain guarantees given

Under U.S. GAAP, FIN 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Guarantees for the Indebtedness of Others requires the recognition of the fair value of certain guarantees given as a liability at the date the guarantee is granted for their non-contingent portion.

Under IFRS, such commitment cannot be provided for because it does not meet the present obligation criteria required

to accrue for a liability under IAS 37.

For the period ended December 31, 2004 under U.S. GAAP, Thomson reversed a liability accrued in accordance with FIN 45 as of December 31, 2003 for an amount of €4 million.

Over the year ended December 31, 2005, Thomson entered into several disposals of business from our Display & CE Partnerships activity and made certain guarantees for payments in connection with these disposals. Such guarantees have been measured and recognized as a liability at fair value for €4 million. Such liability is then remeasured subsequent to its initial recognition over the period of the term of the guarantees.

These guarantees expired during the period ended December 31, 2006 and therefore the liability was reversed in the statement of operations under U.S. GAAP. As of December 31, 2006 no guarantee subject to FIN 45 measurement requires recognition as a liability.

The impacts of the above differences on our consolidated statement of operations and our consolidated balance sheets are shown in the table below:

	December 31,		
(in € millions)	**2006**	**2005**	**2004**
Statement of operations			
Selling, administrative and other expenses	2	(2)	4
Income tax	-	-	-
Profit (loss) from continuing operations	2	(2)	4
Profit (loss) from discontinued operations	2	(2)	-
Net income (loss)	4	(4)	4
Balance sheet			
Increase of other reserves	-	4	-
Decrease of net equity	-	(4)	-

(h) Sale-and-leaseback transactions

IFRS require the profit resulting from an operating sale-and-leaseback transaction to be recognized up-front when the sale is made at market conditions, whereas U.S. GAAP require it to be amortized over the period of the lease, except the gains that exceed the present value of the minimum future lease payments.

.

Thomson Inc. sold its U.S. corporate headquarters for €60 million (USD 58 million ; €57 million net of costs) in March 2000. The buildings were leased back from the purchaser over a period of twelve years; the resulting lease is accounted for as an operating lease. This sale-and-leaseback transaction was determined to be at arms-length market conditions, and therefore Thomson recognized under IFRS the resulting gain of €7 million as of December 31, 2000, while under U.S. GAAP the gain was deferred and amortized over the life of the lease, except the gain that exceeds the present value of the minimum future lease payments measured at disposal date. Thus, under U.S. GAAP, an annual gain of €1 million is recognized for each of the years ended December 31, 2006, 2005 and 2004, respectively. This implies an additional €1 million income under U.S. GAAP compared to IFRS.

.

Thomson sold its French headquarters located in Boulogne-Billancourt for €91 million in February 2000. The building was leased back from the purchaser for a period of six years under an operating lease. This transaction was determined to be at arms-length market conditions. Under IFRS, Thomson recognized a gain of €32 million corresponding to the difference between selling price and net book value. Under U.S. GAAP, the excess of such gain over the present value of the minimum future lease payments is recognized at the disposal date (€9 million), while the remaining amount has been deferred and amortized over the lease period for €1 million, €4 million and €4 million in each of the years ended December 31, 2006 and 2005 and 2004, respectively.

.

In 2006, Thomson realized two sales of its buildings located in Rennes and Madrid for €18 million and €8 million, respectively. The buildings were leased back from the purchaser for a period of six years for Rennes and seven years for Madrid under two operating leases. These transactions were realized at arms-length market conditions. Under IFRS, Thomson recognized a gain of respectively €12 million and €2 million, corresponding to the difference between the selling price and the net book value. Under U.S. GAAP, the excess of such gain over the present value of the future lease payments is recognized at the disposal date (respectively €6 million and nil), while the remaining amount is deferred and will be amortized over the lease period (nil in 2006).

The unrecognized gain amounted to €10 million, €4 million and €8 million as of December 31, 2006, 2005 and 2004, respectively (of which €2 million, €3 million and €4 million for U.S. Corporate headquarters; nil, €1 million and €4 million for French headquarters; €6 million, nil and nil for Rennes and €2 million, nil and nil for Madrid).

(i) Long-term payables

Under IFRS, IAS 39 "Financial Instruments: Recognition and Measurement" requires long term payables to be measured and recognized at the present value of the future cash outflows expected to be required to settle the obligation.

Under U.S. GAAP, APB 21 Interest on Receivable and Payables requires that a liability be measured at its discounted value under certain circumtances when the timing and the amount of future cash outflows are fixed or reliably determinable.

As of December 31, 2006, 2005 and 2004, Thomson recognized certain liabilities that are expected to be settled in more than twelve months. Related liabilities have been estimated using a discounted cash flow approach under IFRS. Under U.S. GAAP, the time value effect has been reversed because the time and value of the future cash outflows are uncertain.

Under IFRS, the accretion effect is recognized as a financial expense.

Accordingly for the periods ended December 31, 2006, 2005 and 2004 under U.S. GAAP, Thomson recognized an additional expense for €1 million, €2 million and €1 million, respectively.

(j) Hedging activities and other financial instruments

(i) Hedge accounting

Under U.S. GAAP and until January 1, 2005, the date of the first application of IAS 39, Thomson did not meet the criteria to qualify for hedge accounting. As a result, related derivative financial instruments were accounted for at fair value with change in fair value reported in net income.

Under IFRS, Thomson elected to designate derivative financial instruments as hedging instruments qualifying for hedge accounting from January 1, 2005 onwards, date of the first adoption of IAS 32/39.

Under U.S. GAAP, Thomson elected to prospectively designate derivative financial instruments as hedging instruments qualifying for hedge accounting starting on July 1, 2005.

(ii) Equity securities classification Videocon Industries securities

Thomson holds certain equity securities with readily determinable fair value that have been designated as available for sale securities under IFRS. As such they are recognized at fair value, with un-realized gains or temporary declines in value excluded from earnings and reported as a component of equity and other-than-temporary declines in fair value being accounted for as a loss in the statement of operations.

Under U.S. GAAP, as required by FAS 115, similar treatment is required for similar designated financial assets. However, restricted equity securities do not have readily determinable fair value are not addressed by FAS 115 and therefore cannot be designated as available-for-sale.

As of December 31, 2006, Thomson held €216 million of Videocon Industries equity securities (€240 million as of December 31, 2005), in the form of Global Depositary Receipt ("GDR") listed on the Luxembourg Stock Exchange. Thomson may not transfer any related shares until September 30, 2008, subject to certain exceptions, which are notably that (i) Thomson may monetize or hedge the risk associated with the shares in accordance with customary

market practice, or otherwise use the shares to support a financing, in each case so long as it retains title to the shares until September 30, 2008, (ii) Thomson may enter into lending arrangements with respect to these shares, and (iii) Thomson may sell up to 10% of its holding under various conditions.

As such and given the fact that the sale of GDRs is contractually restricted, the related investment is not designated as available-for-sale under U.S. GAAP but carried at historical cost.

As a consequence, the temporary impairment recognized against equity under IFRS has been reversed and financial assets are increased in an amount of €10 million under U.S. GAAP as of December 31, 2006 (€8 million as of December 31, 2005).

(iii) Call option

In 2004, in connection with the TTE transaction with TCL International (see Note 6), Thomson granted TCL International a call option, whereby TCL International is entitled to require Thomson to deliver 2.5 million of Thomson ordinary shares at a fixed exercise price of €18.12 per share. Thomson has assessed this right granted to TCL International as part of the contribution made in exchange of the 33% interest in TTE. This call option has a net settlement. This call option expired unexercised in 2006.

Before the application as of January 1, 2005 of IAS 32/39, Thomson was applying French GAAP for all financial instruments. Under French GAAP, and at combination date, the benefit granted by Thomson to TCL International was valued and recognized in the related exchange of non monetary assets as part of the equity investment received with the counterpart charged against retained earnings.

Under U.S. GAAP, such a written call option is a freestanding derivative that meets the recognition criteria of EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock that shall be recognized at fair value as a liability in the consolidated balance sheet, with re-measurement at each balance sheet date because it is entered into in conjunction with some other transaction and is legally detachable and separately exercisable.

The accounting treatment under IAS 32/39 is similar to that described above under U.S. GAAP. As a result, since the first application of IAS 32/39, on January 1, 2005 no difference remains related to this particular financial instrument. Since the transition application of IAS 32/39 is retrospective, with a first application on January 1, 2005 and for the period ended December 31, 2005, no difference between IFRS and U.S. GAAP remains.

As of December 31, 2004, Thomson recognized an additional €4 million financial expense as a result of the re-measurement process of the options granted described above. As a result, as of December 31, 2004, Thomson has recognized a €8 million financial liability and the impact on the net equity under U.S. GAAP compare to IFRS amounts to € (8) million (i.e. reversal of French GAAP entry and additional financial expense remeasurement).

For the periods ended December 31, 2006, 2005 and 2004, financial impacts of hedging activities and other financial instruments on our consolidated statement of operations and our consolidated balance sheets of such differences are summarized in the table below.

	December 31,		
(in € millions)	**2006**	**2005**	**2004**
Statement of operations			
Revenue	-	(11)	(10)
Cost of sales	-	-	11
Financial income	-	-	4
Income tax	-	(3)	-
Profit (loss) from continuing operations	-	(14)	5
Profit (loss) from discontinued operations	-	-	-
Net income (loss)	-	(14)	5
Balance sheet			
Increase of non-current assets [(1)]	10	8	6
Increase of current assets	-	-	10
Increase of financial debt	-	-	8
Increase of non-current liabilities	3	3	-
Increase of other current liabilities	-	-	8
Increase of net equity [(2)]	7	5	-

(1)

Increase of non-current assets only corresponds to Videocon Industries securities as of December 31, 2006.

(2)

Of which € (3) million and € (3) million of tax as of December 31, 2006 and 2005.

(k) Change in accounting principle – Variable interest entities and related transactions

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 (FIN 46). The primary objectives of FIN 46 were to provide guidance on the identification of entities for which control is achieved through means other than through voting rights and how to determine when and which business enterprise should consolidate the variable interest entity (VIE). This Interpretation applies immediately to VIEs created after January 31, 2003.

In December 2003, the FASB published a revision to FIN 46 (FIN 46R), in part to clarify certain of its provisions. Among other things, FIN 46R deferred the effective date for VIEs created prior to February 1, 2003 to the end of the first reporting period that ends after March 15, 2004. For Thomson, the effective date to account for VIEs created prior to February 1, 2003 is the period ended December 31, 2004. FIN 46R requires consolidation of VIEs by business enterprises considered to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is the party that absorbs a majority of the entity s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are ownership, contractual, or other pecuniary interests in an entity. The primary beneficiary is required to consolidate the assets, liabilities, and results of the activities of the VIE. FIN 46R requires additional disclosures relating to transactions involving VIEs to be made by primary beneficiaries and enterprises holding significant variable interests in VIEs.

For entities created before January 31, 2003, Thomson consolidated two SPEs beginning January 1, 2004, under both IFRS (under the first application of SIC 12 Consolidation Special Purpose Entities) and U.S. GAAP, because they are both VIEs for which Thomson holds the majority of expected losses and is the primary beneficiary. Due to differences between the treatment of the first time consolidation under IFRS (impact reflected through shareholders' equity as of January 1, 2004 as required by IFRS 1 "First Time Application") and U.S. GAAP (accounted under the caption of the statement of operation as a cumulative effect of change in accounting principle), a € (43) million adjustment was included in the cumulative effect of change in accounting principle in the statement of operations for the year ended December 31, 2004 under U.S. GAAP.

(l) Business combinations

(i) Differences due to specific exemptions provided by IFRS 1

Under IFRS in accordance with IFRS 1 First Time Adoption the Group has opted not to restate business combinations that were completed before January 1, 2004. Consequently, business combinations consummated before that date may have a different treatment under IFRS and U.S. GAAP.

In addition, under U.S. GAAP, SFAS 142 Goodwill and Other Intangible Assets requires no amortization of goodwill to be recorded after January 1, 2002, whereas, in application of IFRS 3 Business Combination and the related exemption provided by IFRS 1, business combinations consummated prior to January 1, 2004, have not been restated and consequently, accumulated amortization of goodwill recognized under French GAAP as of that date, still exists under IFRS.

Main differences result from acquisitions completed before January 1, 2004, that have been accounted for under French GAAP with no adjustment when the Group applied IFRS for the first time on January 1, 2004. Therefore differences exist from U.S. GAAP compared to IFRS that are similar to those that existed between French GAAP and U.S. GAAP.

Main differences that affect the amount of goodwill under U.S. GAAP compared to IFRS are as follows:

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difference in accumulated amortization of goodwill and the related impact on both the cumulative translation adjustment, if any, and the capital gain (loss) in the case of a sale of a reporting unit for which goodwill had previously been recognized;

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the accounting of our acquisition of the 33% minority interest of Philips Broadcast made in 2001;

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the recognition of certain restructuring plan of the acquiring entities against goodwill as allowed under French GAAP, while charged to net income under U.S. GAAP;

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easyplug gain on asset contribution;

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certain retention bonuses, for which related benefits were charged against goodwill under French GAAP, while charged as compensation expenses under U.S. GAAP.

(ii) Deferred tax impact on business combinations

Under IFRS, in accordance with IAS 12   Income Tax , the recognition of deferred tax assets arising from the tax loss carry-forward of an acquiring company that will offset taxable income of an acquired entity in a certain period are booked as tax income in such period.

Under U.S. GAAP, such recognition should be considered to be part of the business combination in accordance with FAS 109 Accounting for Income Taxes and is recorded against goodwill.

In 2005, Thomson acquired certain entities from which other Thomson subsidiaries were able to recognize un-recognized deferred tax assets. As a consequence, an amount of €51 million was recorded as tax income under IFRS, but against goodwill under U.S. GAAP (no impact on the statement of operations for year ended December 31, 2006).

For the periods ended December 31, 2006, 2005 and 2004, impacts on our consolidated statement of operations and our consolidated balance sheets of such differences are summarized in the table below:

	December 31,		
(in € millions)	**2006**	**2005**	**2004**
Statement of operations			
Selling, administrative and other expenses	-	-	(8)
Income tax	-	(51)	-
Loss from continuing operations	-	(51)	(8)
Loss from discontinued operations	-	(2)	-
Net loss	-	(53)	(8)
Balance sheet			
Increase of goodwill	46	64	105
Decrease of equity investment	(3)	(3)	(3)
Increase of net equity [(1)]	43	61	102

(1)

Of which € (51) million of tax as of December 31, 2006 and 2005.

(m) Cumulative translation adjustment

Under IFRS, in accordance with IFRS 1, the Group elected to recognize all cumulative translation adjustments of the foreign subsidiaries into opening retained earnings as of January 1, 2004. All cumulative translation adjustments for all foreign operations have, therefore, been deemed to be zero at that date. The gain or loss on a subsequent disposal of any foreign operation would exclude translation adjustments that arose before the IFRS transition date but will include later translation adjustments.

Under U.S. GAAP, cumulative translation adjustments continue to be accounted on a cumulative basis, and, as such, shall have a different balance at each balance sheet date under U.S. GAAP as compared to IFRS.

As a consequence, under U.S. GAAP losses on disposals of foreign operations are increased by an amount of €34 million for the year ended December 31, 2005, mainly related to the sale of our Italian tube factory completed in February 2005 to Videocon and the sale of the bulk of our Display Activity to Videocon completed in September 2005 (the translation loss originated when the Italian affiliate was in Italian Lira).

For the year ended December 31, 2006, losses on disposals of foreign operations are increased by €6 million.

(n) Deemed costs - Recognition of certain long-lived assets at fair value

On a discretionary basis and as permitted by IFRS 1, which enables to recognize certain long-lived assets at their fair value at the IFRS transition date, the Group has re-measured and recognized certain long-lived assets at their then fair value. This method has been retained to re-measure certain long-lived assets of the television manufacturing business transferred to TTE in July 2004.

Under U.S. GAAP, reevaluation of long-lived assets is not permitted. This implies a different capital loss recognized under IFRS and U.S. GAAP relative to the sale of our television manufacturing business to TTE in July 2004.

Under U.S. GAAP the result from such disposal is decreased in an amount of nil, nil and €11 million for the years ended December 31, 2006, 2005 and 2004 respectively, with a counterpart booked in the goodwill for €5 million in 2004. Such impact on goodwill is offset by the impairment recorded on TTE equity investment as of December 31, 2004 (included in note (l) (i) above).

(o) Deferred tax

Tax effect of U.S. GAAP adjustments and changes in valuation allowance on deferred tax assets have been recorded in an amount of € (22) million, nil and € (7) million for the periods ended December 31, 2006, 2005 and 2004, respectively.

40.3 Additional disclosures as required under U.S. GAAP

Certain disclosures are required to be made under U.S. GAAP which are not made under Thomson primary accounting policies and are provided below.

40.3.1 Other Comprehensive Income

Under IFRS, IAS 1 requires an entity to present either (i) a statement comprising all changes in equity, or (ii) a statement comprising all changes in equity not arising from transactions with shareholders, the Statement of Recognized Income and Expense (SORIE) as defined by IAS 19.

Under U.S. GAAP, SFAS No. 130 Other Comprehensive Income defines comprehensive income as the change in equity of a business enterprise from transactions and other events and circumstances from non-owner sources.

The following information would be displayed within the consolidated financial statements under U.S. GAAP as either a separate statement or as a component of the consolidated statement of changes in shareholders equity and minority interests:

	For the years ended December 31,		
(in €millions)	**2006**	**2005**	**2004**
Net loss in accordance with U.S. GAAP (before other comprehensive income)	**(199)**	**(721)**	**(695)**
Other comprehensive income (loss)			
- Change in foreign currency translation adjustments	(154)	243	(111)
- Changes in unrealized holding gains on securities	-	(16)	5
- Changes in unrealized holding losses from cash flow hedges	(6)	4	-
- Change in Minimum Liability Adjustment [(1)]	29	(27)	(12)
- Tax effect of the above adjustments	-	-	-
Other comprehensive income (loss), net of tax	**(131)**	**204**	**(118)**
Comprehensive income (loss) under U.S. GAAP	**(330)**	**(517)**	**(813)**

(1)

Before application of FAS 158.

If Thomson were to present consolidated financial statements in accordance with U.S. GAAP, the accumulated balances for minimum liability adjustment (MLA), foreign currency translation adjustments (CTA) and unrealized gains on available-for-sale securities, respectively, would be disclosed on the face of the consolidated balance sheets, in the statements of changes in shareholders equity and minority interests, or in the notes to the financial statements. The following table presents the accumulated balances of each classification noted above.

(in € millions) – Debit/(Credit) **2006**	**Minimum Liability Adjustment**	**Currency Translation Adjustment**	**Net unrealized gain**	**Other (1)**	**Total**
Balance at the beginning of the year	124	468	(4)	-	588
Current year change	(29)	154	6	-	131
Balance at the end of the year before adoption of FAS 158	**95**	**622**	**2**	**-**	**719**
Adoption of FAS 158(1)	(95)	-	**-**	29	(66)
Balance after adoption of FAS 158	**-**	**622**	**2**	**29**	**653**
2005	**Minimum Liability Adjustment**	**Currency Translation Adjustment**	**Net unrealized gain**	**Other**	**Total**
Balance at the beginning of the year	97	711	(16)	-	792
Current year change	27	(243)	12	-	(204)
Balance at the end of the year	**124**	**468**	**(4)**	**-**	**588**
2004	**Minimum Liability Adjustment**	**Currency Translation Adjustment**	**Net unrealized gain**	**Other**	**Total**
Balance at the beginning of the year	85	600	(11)	-	674
Current year change	12	111	(5)	-	118
Balance at the end of the year	**97**	**711**	**(16)**	**-**	**792**

(1)

In accordance with the transition application of FAS 158, Thomson recognised €(66) million in accumulated other comprehensive income as of December 31, 2006 analyzed as follows:

(in € millions)	**Pension benefits**	**Other benefits**	**Total benefits**
Minimum Liability Adjustment as of December 31, 2006 (before FAS 158 adoption)	(95)	-	(95)
Unrecognized items (Note 40.2 (d))	115	(86)	29
TOTAL	**20**	**(86)**	**(66)**

40.3.2 Earnings per share under U.S. GAAP

Earnings per share according to U.S. GAAP, giving effect of the IFRS to U.S. GAAP adjustments as previously described is as follows:

		For years ended December 31,		
(in € millions unless otherwise stated)		**2006 (1)**	**2005**	**2004**
Income (loss) from continuing operations	*(i)*	(55)	98	211
Dilutive effect [2]	*(ii)*	-	(72)	(16)
Income (loss) from continuing operations available to common shareholders	*(i)+(ii)*	(55)	26	195
Loss from discontinued operations (Note 40.3.3)	*(iv)*	(144)	(819)	(863)
Cumulative effect of change in accounting principle	*(v)*	-	-	(43)
Net loss available to common shareholders for basic calculation	*(i)+(iv)+(v)*	(199)	(721)	(695)
Net loss available to common shareholders for diluted calculation	*(i)+(ii)+(iv)+(v)*	(199)	(793)	(711)
Average number of shares basic under U.S. GAAP (in thousand of shares)		261,189	266,540	273,647
Average number of shares diluted under U.S. GAAP (in thousand of shares)		261,189 [3]	293,962 [4]	298,684 [4]
Earnings (loss) per share from continuing operations (in €):				
Basic		(0.21)	0.37	0.77
Diluted		(0.21) [3]	0.09	0.65
Loss per share from discontinued operations (in €):				
Basic		(0.55)	(3.07)	(3.15)
Diluted		(0.55) [3]	(2.79)	(2.89)
Loss per share on cumulative effect of accounting change (in €):				
Basic		-	-	(0.16)
Diluted		-	-	(0.14)
Net loss per share (in €):				
Basic		(0.76)	(2.70)	(2.54)
Diluted		(0.76) [3]	(2.70)	(2.38)

(1)

For year ended December 31, 2006, loss from continuing operations includes the compensation expense computed in accordance with FAS 123(R) for new awards and unvested awards at adoption date (Note (a)).

(2)

For year ended December 31, 2005, dilutive effect relates mainly to the SilverLake USD convertible bond impact. For year ended December 31, 2004, such effect relates mainly to BASA plan offered to non-employees/non-directors; the difference between the subscribed price of €1 and the fair value of the option which gave right to purchase one Thomson share at €16 has been considered as preferred dividend.

(3)

For year ended December 31, 2006, diluted loss per share is computed in the same manner as basic earning per share because result from continuing operations is in a loss position.

(4)

For years ended December 31, 2005 and 2004, differences with average number of shares used for diluted earning (loss) per share calculation under IFRS relates to IFRS 1 exemption.

Reconciliation from basic earnings per share to diluted earnings per share from continuing operations for years ended December 31, 2005 and 2004 is as follows:

2005	**Profit (loss) from continuing operations (numerator)** *(in € millions)*	**Number of shares (denominator)** *(in thousand of shares)*	**Per share amounts** *(in euros)*
Earnings per share according to U.S. GAAP (basic)	98	266,540	0.37
Dilutive effect:			
BASA	-	1,964	0.36
SilverLake convertible	(69)	23,417	0.10
Call option issued to TCL	(3)	98	0.09
Stock option plans	-	1,943	0.09
Earnings per share according to U.S. GAAP (diluted)	26	293,962	0.09

For the year ended December 31, 2005, in addition to the OCEANEs 2006 and 2008 (Note 25), the promissory note issued to Carlton in connection with the Technicolor acquisition, Thomson 2005 stock options plans and stock options plans granted in connection with the acquisition of Inventel and Cirpack (Note 29) are not included in the diluted earnings per share calculation because they are considered as antidilutive.

2004	**Profit (loss) from continuing operations (numerator)** *(in € millions)*	**Number of shares (denominator)** *(in thousand of shares)*	**Per share amounts** *(in euros)*
Earnings per share according to U.S. GAAP (basic)	211	273,647	0.77
Dilutive effect:			
BASA	(23)	232	0.69
SilverLake convertible	2	6,704	0.68
Convertible bond (OCEANE 2008)	4	14,815	0.66
Carlton promissory note	1	3,158	0.65
Stock option plan	-	128	0.65
Earnings per share according to U.S. GAAP (diluted)	195	298,684	0.65

As of year ended December 31, 2004, OCEANE 2006 and call option granted to TCL are not included in the diluted earning per share calculation because they are considered as antidilutive.

40.3.3 Discontinued operation

According to the provisions of FAS 144, the effect of the discontinuation of an operation is presented separately and included in income from discontinuing operations.

Net income under U.S. GAAP of discontinued operations is as follows:

(in € millions)	For years ended December 31,						
	2006	2005 as reported	Effect of additional classification (1)	**2005 as revised**	2004 as reported	Effect of additional classification (1)	**2004 as revised**
Income (loss) from continuing operations before income tax	**(34)**	198	21	**219**	305	(2)	**303**
Income tax	**(21)**	(122)	1	**(121)**	(92)	-	**(92)**
Income (loss) from continuing operations	**(55)**	76	22	**98**	213	(2)	**211**
Discontinued operations :							
Gain (loss) on discontinued operations before income tax	**(142)**	(791)	(21)	**(812)**	(880)	2	**(878)**
Income tax	**(2)**	(6)	(1)	**(7)**	15	-	**15**
Gain (loss) on discontinued operations	**(144)**	(797)	(22)	**(819)**	(865)	2	**(863)**
Net loss before cumulative effect of change in accounting principle	**(199)**	(721)	-	**(721)**	(652)	-	**(652)**
Change in accounting principle	**-**	-	-	**-**	(43)	-	**(43)**
Net loss	**(199)**	(721)	-	**(721)**	(695)	-	**(695)**

(1)

Additional classification to reflect discontinued operations recorded in 2006.

40.3.4

Combined information concerning pro rata consolidated entities

Under IFRS, Thomson accounts for certain investments (notably Screenvision entities) using the pro rata consolidation method.

Under U.S. GAAP, such investments would be accounted for under the equity method. In accordance with regulations of the U.S. Securities and Exchange Commission with respect to the use of the pro rata consolidation method, summarized financial information of Thomson s assets, liabilities, revenues, expenses and cash flows related to investments accounted for using the pro rata consolidation method has been prepared as of and for the years ended December 31, 2006, 2005 and 2004.

The following table presents the entities consolidated using the pro rata method which summarized financial information is disclosed.

	December 31,		
	2006	**2005**	**2004**
Contentguard Holdings Inc.	√	√	
Thomson CITIC Digital Technology	√	√	√
Nagra Thomson Licensing	√	√	√
La luna Titra		√	√
Thomson Broadcast and Media Solutions Nordic A/S	√	√	√
Screenvision Europe entities sub-group (Note 39)	√	√	√
Screenvision Billboard Network, LLC	√	√	√
Screenvision Cinema Network, LLC	√	√	√
Screenvision Direct, Inc. (ex - Val Morgan Cinema Adv. Inc.)	√	√	√
Screenvision Billboard Holdings, Inc.	√	√	√
Screenvision Holdings, Inc. (US) (ex- Technicolor Screen Advertising, Inc.)	√	√	√
Technicolor Cinema Advertising LLC	√	√	√
Screenvision Acquisition 10, Inc	√	√	√
Screenvision Acquisition 20, LLC	√	√	√
Screenvision Exhibition, Inc.	√	√	√
3DCD LLC	√	√	√
Technicolor (Beijing) Visual Technology Co. Ltd	√		

(in € millions)	As of and for years ended December 31, **2006**	**2005**	**2004**
Balance sheet			
Non current assets	92	102	85
Current assets	72	71	59
Non current liabilities	11	12	10
Current liabilities	84	89	75
Statement of operations			
Revenues	111	97	84
Gross margin	49	38	31
Profit from continuing operations before tax and net finance costs	15	5	5
Net income	5	4	1
Cash flow statement			
Cash flow from operating activities	20	23	3
Cash flow from investing activities	(8)	(6)	(2)
Cash flow from financing activities	(9)	(3)	-

Figures from IFRS financial statements before elimination of discontinued operations and held for sale balance sheet amounts.

40.3.5 Goodwill information

Under U.S. GAAP, goodwill and indefinite-lived intangible assets are no longer amortized and are assessed for impairment on at least an annual basis. Intangible assets with finite lives are amortized over their estimated useful life.

The impairment test for goodwill involves a two-step process. Step one consists of a comparison of a reporting units fair value to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below, if certain conditions are met. The fair value of the reporting unit is determined based on discounted cash flows, market multiple or appraised values, as appropriate. If the carrying value of the reporting unit is greater than its fair value, step two of the goodwill impairment test is required.

Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit s goodwill carrying value exceeds the implied fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible assets (including unrecognized intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in the first step). In this step, the fair value of the reporting unit is allocated to all of the reporting unit s assets and liabilities (a hypothetical purchase price allocation). Thomson performed its annual impairment test as of September 30, 2004, 2005 and 2006.

For the year ended December 31, 2004, under U.S. GAAP, Thomson recorded impairment charges amounting to €4 million in the Service segment.

Thomson did not recognize any goodwill impairment charge for the years ended December 31, 2006 and 2005 on its fully consolidated subsidiaries.

Impairment of Indefinite-lived Intangible Assets

The impairment test for indefinite-lived intangible assets other than goodwill consists of comparing the carrying amount of these intangible assets to their fair value. Any excess of the carrying amount over an asset s fair value is recorded as an impairment charge. Thomson completed the impairment test for these assets as of September 30, 2006, 2005 and 2004 and determined that the fair value of these assets was in excess of the relative carrying amounts. Accordingly, no impairment charges were recorded for the years ended December 31, 2006, 2005 and 2004 related to indefinite lived intangibles assets.

Intangible assets acquired subject to amortization mainly consist of:

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acquisitions in 2006 amounting to €39 million and primarily consisting of (i) customer relationship of Convergent (€1 million) and (ii) technology for Thales Broadcast Multimedia (€24 million) and Canopus (€8 million);

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acquisitions in 2005 amounting to €187 million and primarily consisting of (i) customer relationship of PRN (€66 million) and Cirpack (€10 million) and (ii) technology for Inventel (€28 million), Cirpack (€9 million), Contentguard (€12 million) and Nextamp (€6 million);

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acquisitions in 2004 amounting to €193 million and primarily consisting of customer relationships of the HNS business (€175 million) and NOKIA (€3 million) as well as certain other technology rights for an amount of €15 million.

The aggregate amortization expense for intangible assets for the year ended December 31, 2006, 2005 and 2004 was €105 million, €100 million and €62 million, respectively.

No indefinite-lived intangible assets were acquired during the year ended December 31, 2006.

Indefinite-lived intangible assets acquired during the year ended December 31, 2005 amounted to €5 million.

No indefinite-lived intangible assets were acquired during the year ended December 31, 2004.

The in-progress research and development assets acquired and written off in the years ended December 31, 2006, 2005 and 2004 amounted to €5 million, €10 million and €2 million, respectively.

Under U.S. GAAP, the aggregate amount of goodwill as of December 31, 2006, 2005 and 2004 amounted to €1,738 million, €1,804 million and €1,268 million, respectively, and is broken down as follows by reportable segment.

(in € millions)	**December 31, 2005** [(1)]	**Change in goodwill**	**Impairment or disposal**	**Currency Translation Adjustment**	**Held for sale reclassification**	**December 31, 2006(1)**
Services	1,174	23	-	(96)	-	1,101
Systems	602	42	-	(32)	-	612
Technology	28	-	-	(3)	-	25
Display & CE Partnerships	-	-	-	-	-	-
TOTAL	**1,804**	**65**	**-**	**(131)**	**-**	**1,738**

(1)

Goodwill on pro rata consolidated entities is not included in the figures above (amounting to €48 million and €51 million as of December 31, 2006 and 2005, respectively and mainly related to Screenvision entities).

(in € millions)	**December 31, 2004 (1)**	**Change in goodwill**	**Impairment or disposal**	**Currency Translation Adjustment**	**Held for sale reclassification**	**December 31, 2005(1)**
Services	920	117	-	137	-	1,174
Systems	330	257	-	15	-	602
Technology	-	25	-	3	-	28
Display & CE Partnerships	18	-	(9)	-	(9)	-
TOTAL	**1,268**	**399**	**(9)**	**155**	**(9)**	**1,804**

(1)

Goodwill on pro rata consolidated entities is not included in the figures above (amounting to €51 million and €46 million as of December 31, 2005 and 2004, respectively and mainly related to Screenvision entities).

(in € millions)	December 31, 2003 [(1)]	Change in goodwill	Impairment or disposal	Currency Translation Adjustment	December 31, 2004[(1)]
Services	882	86	-	(48)	920
Systems	310	27	-	(7)	330
Technology	-	-	-	-	-
Display & CE Partnerships	6	21	(7)	(2)	18
TOTAL	**1,198**	**134**	**(7)**	**(57)**	**1,268**

(1)

Goodwill on pro rata consolidated entities is not included in the figures above (amounting to €46 million and €53 million as of December 31, 2004 and 2003, respectively and mainly related to Screenvision entities).

40.3.6 Recently issued accounting pronouncements

In February 2006, the FASB issued FASB Statement No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (FAS 155). FAS 155 amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. FAS 155 among other things permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. FAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. Thomson is currently in the process of assessing the impact the adoption of FAS 155 will have on its financial statements.

In March 2006, the FASB issued FAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 which amends FAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities. FAS No. 156 also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the balance sheet and additional disclosures for all separately recognized servicing assets and servicing liabilities. Thomson does not believe the adoption of FAS 156 will have a significant effect on its consolidated financial statements.

In June 2006, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue No. 06-3, How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF 06-3). EITF 06-3 requires a company to disclose its accounting policy (i.e. gross vs. net basis) relating to the presentation of taxes within the scope of EITF 06-3. Furthermore, for taxes reported on a gross basis, an enterprise should disclose the amounts of those taxes in interim and annual financial statements for each period for which a statement of operations is presented. The guidance is effective for all periods beginning after December 15, 2006. Thomson does not believe the adoption of EITF 06-3 will have a significant effect on its consolidated financial

statements.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which is an interpretation of FAS No. 109, Accounting for Income Taxes (FAS 109). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FAS 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Thomson is currently in the process of assessing the impact that the adoption of FIN 48 will have on its consolidated financial statements.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB No. 43, Accounting for Compensated Absences (EITF 06-2), effective for fiscal years beginning after December 15, 2006. Under EITF No. 06-2 compensation cost associated with a sabbatical or other similar benefit programs that requires the completion of a minimum service period, in which the benefit does not increase with additional years of services accumulated and in which the individual continues to be a compensated employee and is not required to perform duties for the entity during the absence should be accrued over the requisite service period assuming all of the other conditions of paragraph 6 of FAS 43 Accounting for Compensation Absences are met. Thomson does not believe the adoption of EITF No. 06-2 will have a material impact on its consolidated financial statements.

In July 2006, the FASB issued the Staff Position No. FAS 13-2 Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction . This FASB Staff Position (FSP) addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. The guidance in this FSP amends FASB Statement No. 13, Accounting for Leases . The effective date of this FSP will be fiscal years beginning after December 15, 2006. Thomson does not expect the adoption of FSP FAS 13-2 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Thomson is currently in the process of assessing the impact the adoption of FAS 157 will have on its consolidated financial statements.

In September 2006, the FASB ratified the EITF position EITF 06- 5 (EITF 06-5), Accounting for Purchases of Life Insurance Determining the amount that could be realized in accordance with FASB Technical Bulletin 85-4. EITF 06-5 addresses whether a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4. EITF 06-5 also addresses whether a policyholder should consider the contractual ability to surrender all of the individual-life policies (or certificates in a group policy) at the same time in determining the amount that could be realized under the insurance contract in accordance with Technical Bulletin 85-4. The provisions of EITF 06-5 are effective for fiscal years beginning after December 15, 2006 with earlier application permitted. Thomson does not expect the adoption of EITF 06-5 to have a material impact on its consolidated financial statements.

In September 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-1, Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider . EITF 06-1 addresses (i) whether the consideration given by a service provider to a manufacturer or reseller that in turn provides a benefit to the service provider s customer should be characterized as cash consideration or other than cash consideration for purpose of applying EITF 01-9, (ii) whether the consideration given by a service provider to a manufacturer or a reseller of equipment that benefits a customer of both the service provider and the equipment manufacturer or reseller and where the equipment is necessary for a customer to receive a service from the service provider is, in substance, the same as the service provider giving the consideration directly to the end-customer and (iii) whether the consideration given by a service provider to a manufacturer or a reseller (that is not a customer of the service provider) of equipment, when the equipment is necessary for an end-customer to receive a service from the service provider, and where the consideration can be linked to the benefit received by the service provider s customer, should be accounted for in accordance with the model used in EITF 01-9. EITF 06-01 is effective for the first annual reporting period beginning

after June 15, 2007. Thomson has not yet determined the effect of adopting EITF 06-01.

In September 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 06-4 Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . EITF 06-4 addresses whether the postretirement benefit associated with an endorsement split-dollar life insurance arrangement is effectively settled in accordance with either Statement 106 or Opinion 12 upon entering into such an arrangement. EITF 06-04 is effective for fiscal years beginning after December 15, 2007. Thomson does not expect the adoption of EITF 06-4 to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. Thomson is currently assessing the impact FAS 159 may have on its consolidated financial statements.

40.3.7 Valuation and qualifying accounts and reserves

(in € millions)	**Opening balance**	**Charged to costs**	**Reversal of provisions**	**Usage**	**Other movements [(1)]**	**Closing balance**
2006						
Trade accounts and notes receivables	36	20	(14)	(14)	8	36
Other investments	72	-	-	(11)	1	62
2005						
Trade accounts and notes receivables	42	22	(6)	(10)	(12)	36
Other investments	86	1	-	(16)	1	72
2004						
Trade accounts and notes receivables	49	-	-	(11)	4	42
Other investments	86	4	(4)	(3)	3	86

(1)

Includes change in scope of consolidation, currency translation adjustments and held for sale reclassifications

40.4 Condensed statements of operations and balance sheets under U.S. GAAP as of and for years then ended December 31, 2006, 2005 and 2004

	For years ended December 31,		
(in € millions)	**2006**	**2005**	**2004**
Continuing operations			
Revenues	5,854	5,581	5,972
Gross margin	**1,375**	**1,339**	**1,387**
Selling, administrative, and other expenses	(807)	(776)	(758)
Research and development expenses	(324)	(274)	(224)
Profit from continuing operations before tax and net finance costs	**244**	**289**	**405**
Finance costs - net	(192)	13	(83)
Share of loss from associates	(86)	(82)	(20)
Income tax	(21)	(121)	(92)
Minority interests	-	(1)	1

Profit (loss) from continuing operations attributable to equity holders	**(55)**	**98**	**211**
Discontinued operations			
Loss from discontinued operations	(144)	(819)	(863)
Net loss attributable to equity holders before cumulative effect of accounting change	**(199)**	**(721)**	**(652)**
Cumulative effect of accounting change	-	-	(43)
Net loss attributable to equity holders after cumulative effect of accounting change	**(199)**	**(721)**	**(695)**

	As of December 31,		
(in € millions)	**2006**	**2005**	**2004**
ASSETS			
Non-current assets:			
Property, plant & equipment	804	875	1,014
Goodwill [(1)]	1,786	1,855	1,314
Other intangible assets	944	1,068	886
Other non-current assets	838	1,100	621
Total non-current assets	**4,372**	**4,898**	**3,835**
Current assets:			
Inventories	365	333	510
Trade accounts and notes receivable	1,018	1,315	1,157
Cash and cash equivalents	1,311	996	1,843
Other current assets	640	711	1,008
Total current assets	**3,334**	**3,355**	**4,518**
Assets classified as held for sale	**264**	**371**	**101**
TOTAL ASSETS	**7,970**	**8,624**	**8,454**
LIABILITIES & SHAREHOLDERS EQUITY			
Non-current liabilities:			
Borrowings	1,899	1,368	1,591
Reserve for post-employment benefits	494	650	576
Other non-current liabilities	426	434	220
Total non-current liabilities	**2,819**	**2,452**	**2,387**
Current liabilities:			
Borrowings	1,272	1,459	904
Reserve for post-employment benefits	67	62	65
Other current liabilities	2,107	2,395	2,410
Total current liabilities	**3,446**	**3,916**	**3,379**
Minority interests	**12**	**15**	**18**
Shareholders equity	**1,468**	**1,771**	**2,492**
Liabilities directly associated with assets classified as held for sale	**225**	**470**	**178**
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	**7,970**	**8,624**	**8,454**

(1)

Including goodwill recognized on pro rata consolidated entities.

41 Additional information in connection with IFRS 5

As a result of the additional discontinued operations described in Note 5 and the related effects on previous years as determined in accordance with IFRS 5: 1) net operating cash generated from continuing activities was increased by €19 million and decreased by €4 million for the years ended December 31, 2005 and 2004, respectively; 2) net investing cash generated from (used in) continuing activities was decreased by €12 million and €7 million for the years ended December 31, 2005 and 2004, respectively; and 3) net financing cash generated from (used in) continuing activities was increased by €4 million for the year ended December 31, 2005 and was unchanged for the year ended December 31, 2004. The offsetting effects for these changes have been reflected in the line discontinued operations in each respective category.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2006

(With Unaudited Comparative Figures for the Year Ended 31 December 2004)

With Report of Independent Registered Public Accounting Firm

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

Years ended 31 December 2006, 2005 and 2004 (Unaudited)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

TCL Multimedia Technology Holdings Limited

We have audited the accompanying consolidated balance sheets of TCL Multimedia Technology Holdings Limited (the Company) and its subsidiaries (collectively the Group) as of 31 December 2006 and 2005 and the related consolidated income statements, summary statement of changes in equity and cash flow statements for each of the two years in the period ended 31 December 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Group s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group at 31 December 2006 and 2005 and the consolidated results of its operations and cash flows for each of the two years in the period ended 31 December 2006 in conformity with accounting principles

generally accepted in Hong Kong.

Hong Kong Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States. Information relating to the nature and effect of such differences is presented in note 52 to the consolidated financial statements.

Ernst & Young

Certified Public Accountants

Hong Kong

24 July 2007

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENTS

Year ended 31 December 2006 and 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
CONTINUING OPERATIONS				
TURNOVER	6	29,186,823	32,499,945	23,641,036
Cost of sales		(24,690,655)	(27,040,234)	(19,437,717)
Gross profit		4,496,168	5,459,711	4,203,319
Other revenue and gains		170,405	233,189	125,179
Selling and distribution costs		(4,338,220)	(4,206,082)	(2,726,386)
Administrative expenses		(1,135,545)	(1,182,981)	(839,210)
Research and development costs		(383,567)	(504,808)	(263,145)
Other operating expenses		(245,928)	(129,493)	(71,299)
		(1,436,687)	(330,464)	428,458
Fair value losses of equity investments at fair value				
through profit or loss/impairment				
of short term investments		(37,653)	(95,083)	(29,026)
Costs in connection with the restructuring and				
winding-down of the EU Business, net	7	(694,868)	-	-
Amortisation of goodwill on acquisition of				
jointly-controlled entities		-	-	(57,321)
Finance costs	8	(245,622)	(162,239)	(65,025)
Share of profits and losses of:				

Jointly-controlled entities	21	3,589	9,212	80,464
An associate		(70)	-	-
PROFIT/(LOSS) BEFORE TAX	9	(2,411,311)	(578,574)	357,550
Tax	12	(96,523)	(107,311)	(125,075)
PROFIT/(LOSS) FOR THE YEAR				
FROM CONTINUING OPERATIONS		(2,507,834)	(685,885)	232,475
DISCONTINUED OPERATION				
Profit/(loss) for the year from a discontinued operation	13	7,362	(17,382)	55,469
PROFIT/(LOSS) FOR THE YEAR		(2,500,472)	(703,267)	287,944
Attributable to:				
Equity holders of the parent		(2,497,314)	(598,893)	308,985
Minority interests		(3,158)	(104,374)	(21,041)
		(2,500,472)	(703,267)	287,944

Continued/

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENTS (continued)

Year ended 31 December 2006 and 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
DIVIDENDS	14			
Interim		-	-	110,316
Distribution in specie		-	-	1,351,585
Proposed final		-	-	110,346
		-	-	1,572,247
EARNINGS/(LOSS) PER SHARE				
ATTRIBUTABLE TO ORDINARY EQUITY				
HOLDERS OF THE PARENT	15			
Basic				
- For profit/(loss) for the year		HK(63.99) cents	HK(18.66) cents	HK11.29 cents
- For profit/(loss) from continuing operations		HK(64.17) cents	HK(18.12) cents	HK9.26 cents
Diluted				
- For profit/(loss) for the year		N/A	N/A	HK8.85 cents
- For profit/(loss) from continuing operations		N/A	N/A	HK7.19 cents

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

31 December 2006 and 2005

(With unaudited comparative figures as of 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
NON-CURRENT ASSETS				
Property, plant and equipment	16	1,993,791	2,722,422	2,389,683
Prepaid land lease payments	17	86,318	62,623	54,914
Goodwill	18	119,638	206,639	206,639
Negative goodwill	18	-	-	(548,016)
Other intangible assets	19	67,784	91,993	26,506
Interests in jointly-controlled entities	21	110,444	157,088	146,375
Interests in an associate	22	69,566	-	-
Available-for-sale equity investments				
/long term investments	23	2,325	14,773	42,301
Long term receivables	24	-	358,774	424,583
Prepaid royalty	25	269,596	563,674	620,368
Deferred tax assets	38	20,678	27,690	18,583
Total non-current assets		2,740,140	4,205,676	3,381,936
CURRENT ASSETS				
Inventories	26	3,206,919	4,599,339	4,565,500
Trade and bills receivables	27	3,595,130	6,036,973	5,671,774
Other receivables	29	926,925	1,270,343	1,322,259
Tax recoverable		23,257	39,089	11,266
	30	-	47,594	116,894

Equity investments at fair value through profit				
or loss/short term investments				
Pledged deposits	31	10,000	90,165	-
Cash and bank balances	31	1,894,633	1,861,957	1,833,272
Total current assets		9,656,864	13,945,460	13,520,965
CURRENT LIABILITIES				
Trade and bills payables	32	4,642,315	6,867,142	6,649,213
Tax payable		111,124	145,985	110,838
Other payables and accruals	33	2,099,535	1,916,671	1,656,962
Provisions	34	805,328	197,402	239,877
Interest-bearing bank and other borrowings	35	2,660,582	3,481,045	570,119
Due to a shareholder/minority shareholder	36	-	536,364	430,748
Due to the ultimate holding company	28	347,999	717,863	246,965
Convertible notes	37	-	-	256,000
Total current liabilities		10,666,883	13,862,472	10,160,722
NET CURRENT ASSETS/(LIABILITIES)		(1,010,019)	82,988	3,360,243
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,121	4,288,664	6,742,179

continued/

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS (continued)

31 December 2006 and 2005

(With unaudited comparative figures as of 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,121	4,288,664	6,742,179
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	35	-	-	1,622,134
Due to a shareholder/minority shareholder	36	-	-	603,048
Deferred tax liabilities	38	21,908	24,057	33,989
Pensions and other post-employment benefits	39	18,171	165,615	130,050
Total non-current liabilities		40,079	189,672	2,389,221
Net assets		1,690,042	4,098,992	4,352,958
EQUITY				
Equity attributable to equity holders of the parent				
Issued capital	40	390,295	390,295	275,796
Reserves	41	1,210,871	3,600,221	2,544,734
Proposed final dividend	14	-	-	110,346
		1,601,166	3,990,516	2,930,876
Minority interests	41	88,876	108,476	1,422,082
Total equity		1,690,042	4,098,992	4,352,958

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED SUMMARY STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2006 and 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Total equity at 1 January		4,098,992	4,352,958	4,220,330
HKAS 39 Recognition of fair value of the Call Option		-	109,876	-
HKFRS 3 Derecognition of negative goodwill		-	548,016	-
Set-off of goodwill arising from the Share Exchange	41	-	(520,725)	-
Issue of shares, including share premium	40	-	1,636,984	160,986
Goodwill realised on disposal of a jointly-controlled entity	41	-	-	1,977
Acquisition of subsidiaries	41	-	-	1,318,760
Incorporation of a non-wholly-owned subsidiary	41	-	-	312
Disposal of subsidiaries	41	(19,907)	-	(5,033)
Acquisition of minority interests	41	-	(1,159,255)	-
Equity-settled share option arrangements	41	22,295	28,661	7,729
Dividends paid to minority shareholders	41	-	(21,110)	(4,070)
Dividends paid to equity holders of the parent	41	-	(110,346)	(1,735,445)
		4,101,380	4,865,059	3,965,546

Total income and expenses recognised directly				
in equity:				
Exchange differences on translation of the				
financial statements of foreign entities	41	89,134	(62,800)	99,468
Profit/(loss) for the year	41	(2,500,472)	(703,267)	287,944
Total income and expenses for the year		(2,411,338)	(766,067)	387,412
Total equity at 31 December		1,690,042	4,098,992	4,352,958
Total income and expenses for the year:				
Attributable to:				
Equity holders of the parent		(2,411,645)	(632,826)	375,378
Minority interests		307	(133,241)	12,034
		(2,411,338)	(766,067)	387,412

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENTS

Year ended 31 December 2006 and 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax:				
From continuing operations		(2,411,311)	(578,574)	357,550
From a discontinued operation		7,362	(5,524)	59,905
Adjustments for:				
Finance costs	8	246,387	163,546	65,715
Share of profits and losses of jointly-controlled entities				
and an associate		(3,519)	(9,212)	(80,464)
Amortisation of goodwill on acquisition of				
jointly-controlled entities		-	-	57,321
Depreciation	9	408,091	334,290	245,801
Goodwill amortisation	9	-	-	33,227
Negative goodwill recognised as income	9	-	-	(49,820)
Loss/(gain) on disposal of items of property, plant				
and equipment, and prepaid land lease payments	9	11,562	(26,517)	(1,331)
Bank interest income	9	(25,345)	(30,664)	(13,811)

Fair value losses of equity investments at fair value through profit or loss/impairment of short term investments		37,653	95,083	29,026
Impairment of available-for-sale equity investments/long term investments	9	2,550	1,058	13,011
Impairment of items of property, plant and equipment	9	37,315	-	-
Costs in connection with the restructuring and winding-down of the EU Business, net	7	694,868	-	-
Gain on disposal of equity investments at fair value through profit or loss	9	(3,179)	-	-
Loss on liquidation of an available-for-sale equity investment	9	-	4,280	-
Amortisation of other intangible assets	9	6,464	4,791	3,155
Amortisation of prepaid land lease payments	9	2,543	5,908	2,633
Loss on disposal of a subsidiary	42(c)	-	-	2,075
Equity-settled share option expense	9	22,295	28,661	7,729
		(966,264)	(12,874)	731,722
Decrease/(increase) in inventories		1,149,668	(59,544)	(400,517)
Decrease/(increase) in trade and bills receivables		2,072,673	(552,872)	(3,119,817)
Decrease/(increase) in other receivables		731,926	134,775	(608,932)
Increase/(decrease) in trade and bills payables		(1,857,514)	371,847	1,596,439
Increase in other payables and accruals		141,341	184,508	783,165
Increase/(decrease) in provisions		27,417	(33,807)	70,493
Increase/(decrease) in pensions and other post-employment benefits		(2,571)	49,580	7,300
Cash generated from/(used in) operations		1,296,676	81,613	(940,147)

continued/

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENTS

Year ended 31 December 2006 and 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Cash generated from/(used in) operations		1,296,676	81,613	(940,147)
Interest paid		(246,387)	(163,546)	(65,715)
Income taxes paid		(124,307)	(119,191)	(171,040)
Net cash inflow/(outflow) from operating activities		925,982	(201,124)	(1,176,902)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment	16	(225,336)	(855,584)	(612,282)
Prepayment of land lease payments	17	(25,195)	(37,416)	(4,859)
Purchases of other intangible assets		-	(1,166)	-
Purchases of available-for-sale equity investments/ long term investments		(1,949)	(13,031)	(4,651)
Purchases of equity investments at fair value through profit or loss/short term investments		-	-	(84,093)
Proceeds from disposal of items of property, plant and equipment, and prepaid land lease payments		173,403	227,037	71,203

Proceeds from disposal of equity investments at fair value through profit or loss		13,120	84,093	-
Decrease/(increase) in pledged deposits		80,165	(90,165)	5,199
Acquisition of minority interests	42(a)	-	(43,800)	-
Acquisition of subsidiaries	42(b)	-	(11,473)	(159,477)
Disposal of subsidiaries	42(c)	357,698	-	(99)
Deconsolidation of a subsidiary	42(d)	(1,524)	-	-
Investment in an associate		(69,074)	-	-
Interest received	9	25,345	30,664	13,811
Dividends received from jointly-controlled entities		5,657	1,563	124,090
Net cash inflow/(outflow) from investing activities		332,310	(709,278)	(651,158)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank and other loans		8,642,512	2,171,399	1,968,428
Repayment of bank loans		(9,284,566)	(1,021,560)	(320,544)
Repayment of convertible notes		-	(256,000)	-
Proceeds from issue of shares upon exercise of share options	40	-	804	69,986
Loan from the ultimate holding company		(452,561)	466,367	246,965
Contribution from minority shareholders		-	-	312
Loan from a shareholder/minority shareholder		161,203	367,334	1,033,796
Repayment of loan from a shareholder/minority shareholder		(256,601)	(790,634)	-
Dividends paid		-	(110,346)	(383,860)
Dividends paid to minority shareholders		-	(21,110)	(943)
Net cash inflow/(outflow) from financing activities		(1,190,013)	806,254	2,614,140
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		68,279	(104,148)	786,080
Cash and cash equivalents at beginning of year		1,720,490	1,833,272	1,069,562
Effect of foreign exchange rate changes, net		52,816	(8,634)	(22,370)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,841,585	1,720,490	1,833,272

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	31	1,894,633	1,861,957	1,833,272
Bank overdrafts	35	(53,048)	(141,467)	-
		1,841,585	1,720,490	1,833,272

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 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
- manufacture and sale of computer related products (discontinued during the year)

In the opinion of the directors, T.C.L. Industries Holdings (H.K.) Limited (T.C.L. Industries), a company incorporated in Hong Kong, is the immediate holding company of the Company and the ultimate holding company of the Company is TCL Corporation, which is registered in the People s Republic of China (the PRC).

2.

BASIS OF PRESENTATION

(a)

Going concern

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

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

(i)

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

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2.

BASIS OF PRESENTATION (continued)

(a)

Going concern (continued)

(i)

(continued)

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

(ii)

On 15 May 2007, the Company proposed to raise not less than approximately HK$781 million (before expenses) by issuing not less than approximately 1,951 million new ordinary shares of the Company and to raise not more than approximately HK$808 million by issuing not more than approximately 2,019 million new ordinary shares of the Company at a subscription price of HK$0.4 per share (the Rights Share) on the basis of one Rights Share for every

two existing shares (the Rights Issue). Any Rights Share not taken up by the existing shareholders will be fully underwritten by T.C.L. Industries pursuant to the terms and conditions of the Underwriting Agreement dated 15 May 2007.

The Rights Issue became unconditional on 11 July 2007 and the Company raised a total of approximately HK$781 million (before expenses) by the issue of approximately 1,951 million Rights Shares.

Further details of the Rights Issue are set out in the Company s announcements dated 15 May 2007 and 12 July 2007 and circular dated 5 June 2007.

(iii)

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

(iv)

On 18 May 2007, the Company entered into a purchase agreement (the Purchase Agreement) with Deutsche Bank AG, London (the Purchaser), whereby the Company agreed to issue and the Purchaser, subject to the satisfaction of the conditions precedent of the Purchase Agreement, agreed to subscribe and pay for or to procure subscribers to subscribe and pay for the secured convertible bonds due 2012 (the Bonds) with an aggregate principal amount of US$140 million (equivalent to approximately HK$1,095 million). The Bonds were issued and completion of the Purchase Agreement took place on 12 July 2007.

Further details of the issue of the Bonds are set out in the Company s announcements dated 21 May 2007 and 12 July 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2.

BASIS OF PRESENTATION (continued)

(a)

Going concern (continued)

In the opinion of the directors of the Company, in light of the measures taken to date, together with the results of the fund raising exercises completed in July 2007, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group s financial and liquidity position at 31 December 2006.

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

(b)

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

Liquidation basis of accounting

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

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

.

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

.

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

.

Cash and bank balances are presented at face value; and

.

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

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2.

BASIS OF PRESENTATION (continued)

(b)

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

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

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

3.1

BASIS OF PREPARATION

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

Basis of consolidation

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

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

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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3.2

IMPACT OF NEW AND REVISED HKFRSs

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

HKAS 21 Amendment

Net Investment in a Foreign Operation

HKAS 39 & HKFRS 4 Amendments

Financial Guarantee Contracts

HKAS 39 Amendment

Cash Flow Hedge Accounting of Forecast Intragroup Transactions

HKAS 39 Amendment

The Fair Value Option

HK(IFRIC)-Int 4

Determining whether an Arrangement contains a Lease

HK(IFRIC)-Int 6

Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The principal changes in accounting policies are as follows:

(a)

HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

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

(b)

HKAS 39 *Financial Instruments: Recognition and Measurement*

(i)

Amendment for financial guarantee contracts

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

(ii)

Amendment for the fair value option

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

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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3.2

IMPACT OF NEW AND REVISED HKFRSs (continued)

(b)

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

(iii)

Amendment for cash flow hedge accounting of forecast intragroup transactions

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

(c)

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

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

(d)

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

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

3.3

IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

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

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3.3

IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs (continued)

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

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

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

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

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

3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

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

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

A joint venture is treated as:

(a)

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

(b)

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

(c)

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

(d)

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

Jointly-controlled entities

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

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

Associates

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

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

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

those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

.

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

.

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

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

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

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

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.

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations

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

Impairment of non-financial assets other than goodwill

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

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

Impairment of non-financial assets other than goodwill (continued)

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

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;

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(d)

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

(e)

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

(f)

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

(g)

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

Property, plant and equipment and depreciation

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

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

Freehold land

Not depreciated

Buildings

2% - 4.5%

Leasehold improvements

25% - 50%

Plant and machinery

9% - 20%

Furniture, fixtures and equipment

18% - 25%

Motor vehicles

18% - 25%

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Intangible assets (other than goodwill)

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

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

Patents and licences

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

Trademarks

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

Research and development costs

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets

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

embedded derivatives are not closely related to those of the host contract.

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

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

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.

Loans and receivables

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as

available for sale are not reversed through the income statement.

Derecognition of financial assets

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

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

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

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

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3.4

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 which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group s cash management.

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

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

Income tax

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

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

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

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

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

Revenue recognition

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

(a)

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

(b)

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(c)

from the rendering of services, when the services are rendered;

(d)

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

(e)

dividend income, when the shareholders right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

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

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

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.

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

Pension schemes

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

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

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

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3.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows.

Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

(i)

Derecognition of financial assets Receivables purchase arrangements

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

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4.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

(ii)

Trademarks with indefinite useful lives

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

Estimation uncertainty

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

(i)

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill/intangible asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and intangible assets with indefinite useful lives at 31 December 2006 were HK$119,638,000 (2005: HK$206,639,000 and 2004 (Unaudited): HK$206,639,000) and HK$56,598,000 (2005: HK$56,598,000 and 2004 (Unaudited): Nil), respectively. Further details are given in notes 18 and 19 to the consolidated financial statements, respectively.

(ii)

Useful lives and impairment of property, plant and equipment

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

(ii)

Useful lives and impairment of property, plant and equipment (continued)

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.

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4.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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.

(v)

Warranty provisions

As further explained in note 34 to the consolidated financial statements, the Group makes provisions for the warranties it gives on sale of its products taking into account the Group s current sales levels and past experience of the level of repairs and returns. As the Group is continually upgrading its product designs and launching new models, it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the actual claims would affect profit or loss in future years.

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

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5.

SEGMENT INFORMATION

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

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

(a)

the television segment manufactures colour television sets and trades related components;

(b)

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

(c)

the audio-visual segment manufactures audio-visual products; and

(d)

the others segment comprises information technology and other businesses.

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

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

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group s business segments.

Year ended 31 December 2006

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Segment revenue:							
Sales to external customers	26,368,102	2,224,068	594,653	-	29,186,823	1,568,162	30,754,985

Intersegment sales	1,234,744	417,992	4,705	(1,657,441)	-	-	-
Total	27,602,846	2,642,060	599,358	(1,657,441)	29,186,823	1,568,162	30,754,985
Segment results	(1,220,459)	17,589	(87,516)	-	(1,290,386)	5,501	(1,284,885)
Interest income					22,719	2,626	25,345
Corporate expense					(169,020)	-	(169,020)
Finance Costs					(245,622)	(765)	(246,387)
Share of profits and losses of:							
Jointly-controlled entities	3,016	-	573	-	3,589	-	3,589
An associate	-	-	(70)	-	(70)	-	(70)
Fair value losses of equity investments at fair value through profit or loss-	-	-	(37,653)	-	(37,653)	-	(37,653)
Costs in connection with the restructuring and winding-down of the EU Business, net	(694,868)	-	-	-	(694,868)	-	(694,868)
Profit/(loss) before tax					(2,411,311)	7,362	(2,403,949)
Tax					(96,523)	-	(96,523)
Profit/(loss) for the year					(2,507,834)	7,362	(2,500,472)

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments (continued)

Year ended 31 December 2006 (continued)

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Assets and liabilities							
Segment assets	12,558,439	254,753	212,571	(2,830,198)	10,195,565	-	10,195,565
Interests in jointly-controlled entities	110,444	-	-	-	110,444	-	110,444
Interests in an associate	-	-	69,566	-	69,566	-	69,566
Unallocated assets		-			1,968,381		1,968,381

Bank overdrafts included in segment assets	53,048	-	-	-	53,048	-	53,048
Total assets							12,397,004
Segment liabilities	11,426,525	349,733	581,039	(4,531,505)	7,825,792	-	7,825,792
Unallocated liabilities					2,828,122		2,828,122
Bank overdrafts included in segment assets	53,048	-	-	-	53,048	-	53,048
Total liabilities							10,706,962
Other segment information:							
Depreciation and amortisation	381,925	14,940	17,243	-	414,108	2,990	417,098
Impairment and fair value losses recognised in the income statement	39,865	-	37,653	-	77,518	-	77,518
Costs in connection with the restructuring and winding-down of the EU Business, net	694,868	-		-	694,868	-	694,868
Capital expenditure	194,214	17,129	12,411	-	223,754	1,582	225,336

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments (continued)

Year ended 31 December 2005

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Segment revenue:							
Sales to external customers	29,937,575	1,986,323	576,047	-	32,499,945	2,056,385	34,556,330
Intersegment sales	1,085,755	369,878	6,952	(1,467,622)	(5,037)	5,037	-
Total	31,023,330	2,356,201	582,999	(1,467,622)	32,494,908	2,061,422	34,556,330

Segment results	(236,647)	(13,242)	11,096	-	(238,793)	(7,076)	(245,869)
Interest income					27,805	2,859	30,664
Corporate expense					(119,476)	-	(119,476)
Finance Costs					(162,239)	(1,307)	(163,546)
Share of profits and losses of jointly-controlled entities	4,494	-	4,718	-	9,212	-	9,212
Fair value losses of equity investments at fair value through profit or loss	-	-	(95,083)	-	(95,083)	-	(95,083)
Loss before tax					(578,574)	(5,524)	(584,098)
Tax					(107,311)	(11,858)	(119,169)
Loss for the year					(685,885)	(17,382)	(703,267)

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments (continued)

Year ended 31 December 2005 (continued)

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Assets and liabilities							
Segment assets	14,223,166	87,194	1,180,351	(500,469)	14,990,242	644,424	15,634,666
Interests in jointly-controlled entities	106,264	-	50,824	-	157,088	-	157,088
Unallocated assets					2,116,411	101,504	2,217,915
	141,467	-	-		141,467	-	141,467

Bank overdrafts included in segment assets							
Total assets							18,151,136
Segment liabilities	11,796,928	197,943	1,075,183	(3,290,739)	9,779,315	446,811	10,226,126
Unallocated liabilities					3,684,551		3,684,551
Bank overdrafts included in segment assets	141,467	-	-	-	141,467	-	141,467
Total liabilities							14,052,144
Other segment information:							
Depreciation and amortisation	316,688	14,064	8,490	-	339,242	5,747	344,989
Impairment and fair value losses recognised in the income statement	-	-	96,141	-	96,141	-	96,141
Capital expenditure	801,359	26,397	12,234	-	839,990	15,594	855,584

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments (continued)

Year ended 31 December 2004 (continued)

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:							
Sales to external customers	21,794,739	1,304,379	541,918	-	23,641,036	1,958,804	25,599,840
Intersegment sales	680,059	945,818	3,072	(1,632,783)	(3,834)	3,834	-
Total	22,474,798	2,250,197	544,990		23,637,202	1,962,638	25,599,840

				(1,632,783)			
Segment results	553,012	30,948	(55,993)	-	527,967	59,492	587,459
Interest income					12,708	1,103	13,811
Corporate expense					(112,217)	-	(112,217)
Finance Costs					(65,025)	(690)	(65,715)
Share of profits and losses of jointly-controlled entities	5,565	-	74,899	-	80,464	-	80,464
Amortisation of goodwill on acquisition of jointly-controlled entities	-	-	(57,321)	-	(57,321)	-	(57,321)
Fair value losses of equity investments at fair value through profit or loss	-	-	(29,026)	-	(29,026)	-	(29,026)
Profit before tax					357,550	59,905	417,455
Tax					(125,075)	(4,436)	(129,511)
Profit for the year					232,475	55,469	287,944

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5.

SEGMENT INFORMATION (continued)

(a)

Business segments (continued)

Year ended 31 December 2004 (continued)

	Continuing operations					Discontinued operation	
	Television	Audio-visual	Others	Eliminations	Total	Computer	Consolidated
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
							Assets and liabilities
Segment assets	14,580,264	221,882	1,240,639	(876,951)	15,165,834	851,290	16,017,124
Interests in jointly-controlled entities	99,616	-	46,759	-	146,375	-	146,375
Unallocated assets							739,402

Total assets							16,902,901
Segment liabilities	13,165,415	211,971	722,696	(4,644,072)	9,456,010	464,045	9,920,055
Unallocated liabilities							2,629,888
Total liabilities							12,549,943
Other segment information:							
Depreciation and amortisation	242,028	11,411	86,474	-	339,913	27,600	342,137
Impairment and fair value losses recognised in the income statement	-	-	42,037	-	42,037	-	42,037
Capital expenditure	449,287	40,613	117,084	-	606,984	5,298	612,282
Negative goodwill recognised as income	49,820	-	-	-	49,820	-	49,820

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5.

SEGMENT INFORMATION (continued)

(b)

Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group s geographical segments for the years ended 31 December 2006, 2005 and 2004.

PRC		Europe			North America			Others			
2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004	2
HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$
	(Unaudited)			(Unaudited)			(Unaudited)			(Unaudited)	
,222,387	12,955,261	3,879,008	7,868,705	4,743,814	6,553,278	6,792,573	3,554,130	8,098,014	6,672,665	4,346,635	30,754
056,385)	(1,958,804)-	-	-	-	-	-	-	-	-	-	(1,568,

,166,002	10,996,457	3,879,008	7,868,705	4,743,814	6,553,278	6,792,573	3,554,130	8,098,014	6,672,665	4,346,635	29,186
,930,814	4,445,771	724,580	4,376,653	4,641,581	2,179,171	2,790,470	3,017,366	2,656,990	2,536,729	3,912,406	10,195
597,261	446,995	38,593	89,472	43,700	74,724	113,988	67,161	15,338	54,863	54,426	225

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6.

TURNOVER

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

7.

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

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

	HK$ 000
Redundancy costs and severance payments	304,538
Impairment of items of property, plant and equipment	96,050
Impairment of other intangible assets	19,137
Impairment of trade and other receivables	124,853

Write-down of inventories to net realisable value	249,627
Net gain arising from the Settlement Term Sheet	
(notes 24, 25 and 47(b)(v))	(87,211)
Gain on deconsolidation of a subsidiary (note 42(d))	(12,126)
	694,868

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8.

FINANCE COSTS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Interest on:			
Bank loans and overdrafts	197,900	108,661	28,723
Other loan wholly repayable within five years	11,595	1,940	-
Convertible notes	-	6,400	7,541
Loan from a shareholder/minority shareholder	17,432	24,783	9,083
Loan from the ultimate holding company	18,869	21,762	20,368
Loan from an associate	591	-	-
	246,387	163,546	65,715
Attributable to:			
A discontinued operation (note 13)	765	1,307	690
Continuing operations reported in the consolidated income statement	245,622	162,239	65,025
	246,387	163,546	65,715

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9.

PROFIT/LOSS BEFORE TAX

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Cost of inventories sold	26,117,573	28,910,462	21,160,532
Depreciation (note 16)	408,091	334,290	245,801
Research and development costs	392,424	521,041	281,311
Less: Government grants released*	(7,579)	(14,639)	(16,908)
Net research and development costs	384,845	506,402	264,403
Amortisation of other intangible assets			
(note 19)**	6,464	4,791	3,155
Amortisation of goodwill (note 18)***	-	-	33,227
Negative goodwill recognised as income	-	-	(49,820)

(note 18)****			
Minimum lease payments under operating			
leases in respect of land and buildings	66,033	63,701	72,081
Amortisation of prepaid land lease payments			
(note 17)	2,543	5,908	2,633
Auditors remuneration	20,494	21,802	9,423
Employee benefits expense			
(including directors remuneration note 10):			
Wages and salaries	1,529,690	1,865,072	963,859
Defined contribution expense	91,166	84,148	63,906
Defined benefit expense (note 39)	28,070	23,879	7,342
Equity-settled share option expense	22,295	28,661	7,729
	1,671,221	2,001,760	1,042,836

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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9.

PROFIT/LOSS BEFORE TAX (continued)

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Loss/(gain) on disposal of items of property, plant			
and equipment, and prepaid land lease payments	11,562	(26,517)	(1,331)
Gain on disposal of equity investments at fair value			
through profit or loss	(3,179)	-	-
Loss on disposal of a subsidiary	-	-	2,075
Loss on liquidation of an available-for-sale			
equity investment	-	4,280	-
Impairment of items of property, plant and equipment***	37,315		
Impairment of available-for-sale equity investments/	2,550	1,058	13,011

long term investments			
Impairment of trade receivables***	191,365	120,196	18,890
Foreign exchange differences, net	(26,580)	72,693	(19,569)
Net rental income	(11,860)	(10,712)	-
Bank interest income	(25,345)	(30,664)	(13,811)
Restructuring costs, net of reimbursement (note 34)	22,284	(194)	16,029
Provision for warranties (note 34)	698,334	248,112	191,853
Write-down/(reversal of write-down) of inventories to net realisable value	(954)	(23,435)	51,516

#

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

*

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

**

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

***

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

****

The negative goodwill recognised as income is included in Other revenue and gains on the face of the consolidated income statement.

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10.

DIRECTORS REMUNERATION

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Fees	1,088	700	300
Other emoluments:			
Salaries, allowances and benefits in kind	3,912	3,448	3,072
Discretionary performance related bonuses	4,183	900	1,078
Employee share option benefits	3,652	3,254	151
Pension scheme contributions	138	94	29
	11,885	7,696	4,330
	12,973	8,396	4,630

(a) Independent non-executive directors

	2006			2005			2004		
	Fees	Employee Share option benefits	Total	Fees	Employee share option benefits	Total	Fees	Employee share option benefits	Total
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000 (Unaudited)	HK$ 000 (Unaudited)	HK$ 000 (Unaudited)
Mr. Tang Guliang	225	49	274	150	51	201	30	-	30
Mr. Wang Bing	225	49	274	150	51	201	30	-	30
Mr. Hon Fongming, Perry	63	49	112	150	51	201	120	-	120
Mr. Robert Maarten Westerholf	50	-	50	-	-	-	-	-	-
	563	147	710	450	153	603	180	-	180

There was no other emoluments payable to the independent non-executive directors during the year (2005 and 2004(Unaudited): Nil).

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10.

DIRECTORS REMUNERATION (continued)

(b)

Executive directors and a non-executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
2006						
Executive directors:						
Mr. Li Dongsheng	-	1,064	-	825	20	1,909
Ms. Lu Zhongli	-	390	-	412	-	802
Mr. Hu Qiusheng	-	489	-	412	15	916
Mr. Shi Wanwen	-	641	1,132	428	28	2,229
Mr. Wang Kangping	-	-	-	230	-	230

Mr. Yuan Bing	-	116	-	54	-	170
Mr. Yan Yong, Vincent	-	1,073	3,051	568	65	4,757
Mr. Zhao Zhongyao	-	139	-	527	10	676
	-	3,912	4,183	3,456	138	11,689
Non-executive directors:						
Mr. Albert Thomas da Rosa, Junior	225	-	-	49	-	274
Mr. Alastair Kenneth Ruskin Campbell	150	-	-	-	-	150
Mr. Didier Trutt	150	-	-	-	-	150
	525	3,912	4,183	3,505	138	12,263

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
2005						
Executive directors:						
Mr. Li Dongsheng	-	650	200	853	-	1,703
Ms. Lu Zhongli	-	390	-	427	-	817
Mr. Hu Qiusheng	-	390	231	427	-	1,048
Mr. Zhao Zhongyao	-	435	274	554	19	1,282
Mr. Yan Yong, Vincent	-	1,073	195	597	56	1,921
Mr. Suen Haywai, Felipe	-	510	-	192	19	721
Mr. Alastair Kenneth Ruskin Campbell	50	-	-	-	-	50
Mr. Didier Trutt	50	-	-	-	-	50
	100	3,448	900	3,050	94	7,592

Non-executive director:						
Mr. Albert Thomas da Rosa, Junior	150	-	-	51	-	201
	250	3,448	900	3,101	94	7,793

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10.

DIRECTORS REMUNERATION (continued)

(b)

Executive directors and a non-executive directors (continued)

	Fees	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
2004						
Executive directors:						
Mr. Li Dongsheng	-	650	180	-	-	830
Mr. Yuan Xincheng	-	120	-	-	-	120

Ms. Lu Zhongli	-	390	-	-	-	390
Mr. Hu Qiusheng	-	390	180	-	-	570
Mr. Zhao Zhongyao	-	112	142	-	5	259
Mr. Yan Yong, Vincent	-	305	414	24	12	755
Mr. Suen Haywai, Felipe	-	1,105	162	127	12	1,406
	-	3,072	1,078	151	29	4,330
Non-executive director:						
Mr. Albert Thomas da Rosa,						
Junior	120	-	-	-	-	120
	120	3,072	1,078	151	29	4,450

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005 and 2004 (Unaudited): Nil).

11.

FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year include one (2005: Nil and 2004(Unaudited): one) director, details of whose remuneration are set out in note 10 above.

Details of the remuneration of the remaining four (2005: five and 2004(Unaudited): four) non-director, highest paid employees for the year are as follows:

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Salaries, allowances and benefits in kind	9,362	10,302	6,684
Discretionary performance related bonuses	5,812	4,230	1,164

Employee share option benefits	-	-	127
Pension scheme contributions	1,288	1,501	36
Compensation for the loss of office	2,944	-	-
	19,406	16,033	8,011

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11.

FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees		
	2006	2005	2004
			(Unaudited)
HK$1,000,001 to HK$1,500,000	-	-	2
HK$1,500,001 to HK$2,000,000	-	-	1
HK$2,000,001 to HK$2,500,000	-	-	1
HK$2,500,001 to HK$3,000,000	1	1	-
HK$3,000,001 to HK$3,500,000	2	4	-
HK$3,500,001 to HK$4,000,000	-	-	-
HK$4,000,001 to HK$4,500,000	-	-	-
More than HK$4,500,001	1	-	-
	4	5	4

12.

TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5% and 2004(Unaudited): 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdications in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Group:			
Current - Hong Kong			
Charge for the year	16,662	11,403	29,751
Overprovision in prior years	(1,712)	-	-
Current - Elsewhere			
Charge for the year	80,333	119,421	99,858
Under/(over)provision in prior years	2,437	(3,466)	-
Deferred (note 38)	(1,197)	(20,047)	(98)
Total tax charge for the year	96,523	107,311	129,511

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12.

TAX (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Profit/(loss) before tax (including profit/(loss)			
before tax from a discontinued operation)	(2,403,949)	(584,098)	417,455
Tax at the statutory/applicable tax rates of			
different countries/jurisdictions	(514,621)	(225,978)	81,469
Lower tax rate for specific provinces or local authority	(130,737)	(145,571)	(82,724)
Effect on opening deferred tax of increase in rates	-	-	(5,928)

Adjustments in respect of current tax of previous periods	725	(3,466)	-
Profits and losses attributable to jointly-controlled entities and an associate	(1,944)	(4,169)	(40,605)
Income not subject to tax	(18,928)	(65,371)	(49,655)
Expenses not deductible for tax	80,652	168,838	128,543
Tax losses not recognised	697,641	385,865	109,530
Tax losses utilised from previous periods	(18,161)	-	(9,078)
Others	1,896	9,021	(2,041)
Tax charge at the Group s effective rate	96,523	119,169	129,511
Represented by:			
Tax charge attributable to a discontinued operation (note 13)	-	11,858	4,436
Tax charge attributable to continuing operations reported in the consolidated income statement	96,523	107,311	125,075
	96,523	119,169	129,511

The share of tax attributable to jointly-controlled entities amounting to HK$783,000 (2005: HK$1,130,000 and 2004(Unaudited): HK$14,052,000) is included in Share of profits and losses of jointly-controlled entities and an associate on the face of the consolidated income statement.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company s PRC subsidiaries and jointly-controlled entities enjoy income tax exemptions and reductions. Certain PRC subsidiaries and jointly-controlled entities are subject to income taxes at tax rates ranging from 7.5% to 33%.

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13.

DISCONTINUED OPERATION

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

The results of the Computer segment for the period from 1 January to 8 September 2006 and the years ended 31 December 2005 and 31 December 2004 are presented below:

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Turnover	1,568,162	2,056,385	1,958,804
Other revenue	12,357	19,025	37,024
Expenses	(1,572,392)	(2,079,627)	(1,935,233)
Finance costs	(765)	(1,307)	(690)

Profit/(loss) before tax from			
the discontinued operation	7,362	(5,524)	59,905
Tax	-	(11,858)	(4,436)
Profit/(loss) for the year from the			
discontinued operation	7,362	(17,382)	55,469

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Operating activities	(184,904)	(41,180)	(32,338)
Investing activities	75,440	(83,976)	(10,139)
Financing activities	243,708	176,458	(21,588)
Net cash inflow/(outflow)	134,244	51,302	(64,065)
Earnings/(loss) per share:			
Basic, from the discontinued operation	HK0.19 cents	HK(0.54) cents	HK2.03 cents
Diluted, from the discontinued operation	N/A	N/A	HK1.66 cents

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13.

DISCONTINUED OPERATION (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Earnings/(loss)			
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation used in the basic and diluted earnings/(loss) per share calculation	7,362	(17,382)	55,469

	2006	2005	Number of shares

			2004
			(Unaudited)
Shares			
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	3,902,951,727	3,210,011,179	2,736,752,618
Effect of dilution - weighted average number of ordinary shares:			
Assumed to have been issued at no consideration on deemed exercise of all outstanding share options	-	6,240,721	14,089,054
Deemed conversion of all convertible notes	-	105,886,421	112,381,287
Deemed exercise of the Exchange Option during the year	-	692,778,748	480,378,535
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	3,902,951,727	4,014,917,069	3,343,601,494

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

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14.

DIVIDENDS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Interim - Nil (2005: Nil and 2004(Unaudited):			
HK4 cents per share)	-	-	110,316
Distribution in specie	-	-	1,351,585
Proposed final - Nil (2005: Nil and 2004(Unaudited):			
HK4 cents per share)	-	-	110,346
	-	-	1,572,247

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

15.

EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Earnings/(loss)			
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation:			
From continuing operations	(2,504,676)	(581,511)	253,516
From a discontinued operation	7,362	(17,382)	55,469
	(2,497,314)	(598,893)	308,985
Effect of dilutive potential ordinary shares:			
Interest on convertible notes	-	6,400	7,541
Adjustment to minority interests upon exercise of the Exchange Option	-	(100,372)	(20,597)
Earnings/(loss) for the purpose of diluted earnings/(loss) per share	(2,497,314)	(692,865)	295,929

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15.

EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

		Number of employees	
	2006	2005	2004
			(Unaudited)
Shares			
Weighted average number of ordinary shares			
in issue during the year used in basic earnings/			
(loss) per share calculation	3,902,951,727	3,210,011,179	2,736,752,618
Effect of dilution - Weighted average number of			
ordinary shares:			
Assumed to have been issued at no consideration			
on deemed exercise of all outstanding share			
options	-	6,240,721	14,089,054

Deemed conversion of all convertible notes	-	105,886,421	112,381,287
Deemed exercise of the Exchange Option during the year	-	692,778,748	480,378,535
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	3,902,951,727	4,014,917,069	3,343,601,494

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

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16.

PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
31 December 2006							
At 1 January 2006:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	-	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 1 January 2006, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422

Additions	7,289	9,429	62,383	78,679	5,015	62,541	225,336
Disposals	(25,270)	(6,333)	(45,049)	(70,619)	(1,543)	(36,151)	(184,965)
Disposal of subsidiaries (note 42(c))	(283,939)	-	(1,145)	(16,201)	(1,979)	-	(303,264)
Deconsolidation of a subsidiary (note 42(d))	-	-	(4,052)	(1,104)	-	-	(5,156)
Depreciation provided during the year	(59,090)	(14,217)	(227,704)	(99,137)	(7,943)	-	(408,091)
Impairment	-	(21)	(99,681)	(21,663)	-	(12,000)	(133,365)
Transfers	21,148	-	77,018	17,976	-	(116,142)	-
Exchange realignment	40,131	1,956	22,526	11,666	829	3,766	80,874
At 31 December 2006, net of accumulated depreciation and impairment	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791
At 31 December 2006:							
Cost	1,341,218	101,649	1,458,552	353,801	61,939	53,874	3,371,033
Accumulated depreciation and impairment	(204,292)	(37,604)	(851,397)	(235,514)	(35,963)	(12,472)	(1,377,242)
Net carrying amount	1,136,926	64,045	607,155	118,287	25,976	41,402	1,993,791

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16.

PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold Land and buildings	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
31 December 2005							
At 1 January 2005:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	-	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 1 January 2005, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
Additions	286,716	42,565	107,201	131,603	13,085	274,414	855,584
Disposals	(67,290)	(2,914)	(60,311)	(44,201)	(3,080)	-	(177,796)

Depreciation provided during the year	(65,036)	(13,554)	(167,397)	(71,423)	(16,880)	-	(334,290)
Transfers	149,407	25,730	109,590	23,381	-	(308,108)	-
Exchange realignment	1,302	773	(2,962)	(3,584)	434	(6,722)	(10,759)
At 31 December 2005, net of accumulated depreciation	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422
At 31 December 2005:							
Cost	1,583,171	97,094	1,326,965	360,223	67,377	139,388	3,574,218
Accumulated depreciation	(146,514)	(23,863)	(504,106)	(141,533)	(35,780)	-	(851,796)
Net carrying amount	1,436,657	73,231	822,859	218,690	31,597	139,388	2,722,422

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16.

PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings HK$ 000 (Unaudited)	Leasehold improve- ments HK$ 000 (Unaudited)	Plant and machinery HK$ 000 (Unaudited)	Furniture, fixtures and equipment HK$ 000 (Unaudited)	Motor vehicles HK$ 000 (Unaudited)	Construction in progress HK$ 000 (Unaudited)	Total HK$ 000 (Unaudited)
31 December 2004							
At 1 January 2004:							
Cost	372,452	93,527	557,145	186,472	47,393	173,342	1,430,331
Accumulated depreciation	(88,648)	(69,200)	(305,244)	(105,635)	(27,522)	-	(596,249)
Net carrying amount	283,804	24,327	251,901	80,837	19,871	173,342	834,082
At 1 January 2004, net of	283,804	24,327	251,901	80,837	19,871	173,342	834,082

accumulated depreciation							
Additions	20,810	29,255	186,606	69,465	24,329	281,817	612,282
Acquisition of subsidiaries (note 42(b))	564,497	2,560	464,001	82,387	6,804	82,689	1,202,938
Disposal of subsidiaries (note 42(c))	-	-	821	(3,190)	(22)	-	(2,391)
Disposals	(11,699)	(23,840)	(3,129)	(20,120)	(3,289)	-	(62,077)
Depreciation provided during the year	(43,274)	(15,146)	(139,785)	(37,906)	(9,690)	-	(245,801)
Transfers	292,993	3,396	60,925	6,635	46	(363,995)	-
Exchange realignment	24,427	79	15,398	4,806	(11)	5,951	50,650
At 31 December 2004, net of accumulated depreciation	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683
At 31 December 2004:							
Cost	1,261,101	32,307	1,294,566	302,624	65,170	179,804	3,135,572
Accumulated depreciation	(129,543)	(11,676)	(457,828)	(119,710)	(27,132)	-	(745,889)
Net carrying amount	1,131,558	20,631	836,738	182,914	38,038	179,804	2,389,683

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)

Freehold	438,022	500,478	486,891
Short term leases	115,641	94,495	68,215
Medium term leases	787,555	988,198	705,995
	1,341,218	1,583,171	1,261,101

At 31 December 2006, certain of the Group s buildings with a net book value of HK$92,834,000 (2005: HK$90,090,000 and 2004(Unaudited): Nil) were pledged to secure general banking facilities granted to a subsidiary of the Company.

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17.

PREPAID LAND LEASE PAYMENTS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Carrying amount at 1 January:			
As at previously reported	68,063	-	-
Effect of adopting HKAS 17	-	58,721	34,837
As restated	68,063	58,721	34,837
Additions	25,195	37,416	4,859
Acquisition of subsidiaries (note 42(b))	-	-	29,453
Disposals	-	(22,724)	(7,795)
Disposal of subsidiaries (note 42(c))	(4,836)	-	-
Amortised during the year	(2,543)	(5,908)	(2,633)
Exchange realignment	2,702	558	-
Carrying amount at 31 December	88,581	68,063	58,721
Current portion included in other receivables (note 29)	(2,263)	(5,440)	(3,807)

Non-current portion	86,318	62,623	54,914

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Short term leases	22,634	18,225	15,567
Medium term leases	65,947	49,838	43,154
	88,581	68,063	58,721

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18.

GOODWILL/NEGATIVE GOODWILL

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

	Goodwill	Negative goodwill
	HK$ 000	HK$ 000
31 December 2005		
At 1 January 2005:		
Cost as previously reported	331,357	(598,490)
Effect of adopting HKFRS 3	(124,718)	598,490

Cost as restated	206,639	
Accumulated amortisation as previously reported	124,718	(50,474)
Effect of adopting HKFRS 3	(124,718)	50,474
Accumulated amortisation		-
Net carrying amount	206,639	-
Cost and carrying amount at 31 December 2005	206,639	-

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18.

GOODWILL/NEGATIVE GOODWILL (continued)

31 December 2004	Goodwill HK$ 000 (Unaudited)	Negative goodwill HK$ 000 (Unaudited)
At 1 January 2004:		
Cost	336,670	(654)
Accumulated amortisation	(92,131)	654
Net carrying amount	244,539	-
Cost at 1 January 2004, net of accumulated amortisation	244,539	-
Acquisition of subsidiaries (note 42(b))	-	(597,836)
Disposal of a subsidiary (note 42(c))	(4,673)	-
Recognised as income/(amortisation provided) during the year	(33,227)	49,820

At 31 December 2004	206,639	(548,016)
At 31 December 2004:		
Cost	331,357	(598,490)
Accumulated amortisation	(124,718)	50,474
Net carrying amount	206,639	(548,016)

As further detailed in note 3.4 to the consolidated 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 the consolidated capital reserve.

At 31 December 2006, the amount of goodwill remaining in the consolidated capital reserve, arising from the acquisition of a subsidiary prior to the adoption of SSAP 30 in 2001, was HK$1,819,000 (2005: HK$1,819,000 and 2004(Unaudited): HK$1,819,000), representing its cost.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- PRC television products cash-generating unit; and
- PRC computer products cash-generating unit.

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18.

GOODWILL/NEGATIVE GOODWILL (continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	PRC television products	PRC computer products	Total
	HK$ 000	HK$ 000	HK$ 000
Carrying amount of goodwill:			
At 31 December 2006	119,638	-	119,638
At 31 December 2005 and 2004(Unaudited)	56,500	150,139	206,639

PRC television products cash-generating unit

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

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

19.

OTHER INTANGIBLE ASSETS

	Patents and licences HK$ 000	Trademarks HK$ 000	Total HK$ 000
31 December 2006:			
Cost at 1 January 2006, net of accumulated amortisation	14,060	77,933	91,993
Amortisation provided during the year	(3,928)	(2,536)	(6,464)
Impairment during the year	-	(19,137)	(19,137)
Exchange realignment	-	1,392	1,392
At 31 December 2006	10,132	57,652	67,784
At 31 December 2006:			
Cost	15,695	90,890	106,585
Accumulated amortisation and impairment	(5,563)	(33,238)	(38,801)
Net carrying amount	10,132	57,652	67,784

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19.

OTHER INTANGIBLE ASSETS (continued)

	Patents and licences	Trademarks	Total
	HK$ 000	HK$ 000	HK$ 000
31 December 2005:			
Cost at 1 January 2005, net of accumulated amortisation	-	26,506	26,506
Additions	15,695	57,764	73,459
Amortisation provided during the year	(1,635)	(3,156)	(4,791)
Exchange realignment	-	(3,181)	(3,181)
At 31 December 2005	14,060	77,933	91,993
At 31 December 2005:			
Cost	15,695	87,667	103,362
Accumulated amortisation	(1,635)	(9,734)	(11,369)

Net carrying amount	14,060	77,933	91,993

	Patents and licences	Trademarks	Total
	HK$ 000	HK$ 000	HK$ 000
31 December 2004:	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2004:			
Cost	-	31,707	31,707
Accumulated amortisation	-	(3,963)	(3,963)
Net carrying amount	-	27,744	27,744
Cost at 1 January 2004, net of accumulated			
amortisation	-	27,744	27,744
Amortisation provided during the year	-	(3,155)	(3,155)
Exchange realignment	-	1,917	1,917
At 31 December 2004	-	26,506	26,506
At 31 December 2004 and 1 January 2005:			
Cost	-	34,201	34,201
Accumulated amortisation	-	(7,695)	(7,695)
Net carrying amount	-	26,506	26,506

Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK$56,598,000 (2005: HK$56,598,000 and 2004(Unaudited): Nil) which have indefinite useful lives. These trademarks are treated as having an indefinite useful life because, in the opinion of the directors, there is no foreseeable limit to the period over which these trademarks may be used to generate cash flows to the Group.

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

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20.

PRINCIPAL SUBSIDIARIES

Particulars of the Company s 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
			2006	2005	2004 (Unaudited)	
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	70	70	70	Manufacture of audio-visual products
Inner Mongolia TCL King Electrical Appliance Company Limited*	PRC	RMB88,130,825	100	100	67	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US$25,452,000	100	100	67	Manufacture of audio-visual products

TTE Corporation @	British Virgin Islands/ Hong Kong	US$10,000	100	100	67	Investment holding
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	100	100	67	Manufacture and sale of audio-visual products
TTE Europe SAS	France	Euro159,394,580	100	100	67	Trading of audio-visual products and components
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000,000	100	100	67	Manufacture and sale of audio-visual products
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	70	70	47	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.**	PRC	RMB30,000,000	100	51	51	Operation of a distribution network in the PRC

Continued /

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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20.

PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company			Principal activities
			2006	2005	2004 (Unaudited)	
TCL Electronics (HK) Limited	Hong Kong	HK$30,000,000	100	100	67	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	100	100	67	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$25,000	100	100	67	Investment holding
TTE Belgium	Belgium	EUR61,500	100	100	-	Investment holding

TCL International Electronics (BVI) Limited	British Virgin Island/Hong Kong	US$1	100	100	-	Investment holding
TTE (North America) Holdings Limited	British Virgin Island/Hong Kong	US$1	100	100	-	Investment holding
TCL India Holdings Pvt. Limited	India	INR246,087,489	100	100	67	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	100	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited**	PRC	HK$95,000,000	100	100	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited**	PRC	RMB21,400,000	100	100	67	Manufacture of audio-visual products

Continued /

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20.

PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company			Principal activities
			2006	2005	2004 (Unaudited)	
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	100	100	67	Manufacture and sale of audio-visual products and trading of components
TCL King Electrical Appliances (Nanchang) Company Limited**	PRC	RMB21,400,000	100	100	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	70	70	47	Manufacture of audio-visual products

TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	100	100	67	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK$2	100	100	67	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK$100	100	100	67	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	100	100	67	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	100	67	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US$1	100	100	67	Trading of audio-visual products and components
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	100	100	100	Manufacture and sale of audio-visual products
TCL- Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	100	100	67	Trading of audio-visual products and components

Continued /

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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20.

PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up capital	% of equity attributable to the Company			Principal activities
			2006	2005	2004 (Unaudited)	
TCL- Thomson Electronics Polska S.P. Zo.o	Poland	PLN92,463	100	100	67	Manufacture of audio-visual products
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US$22,103,000	100	100	67	Manufacture of audio-visual products
TTE Technology Canada Limited	Canada	CAD816,000	100	100	67	Trading of audio-visual products and components
TTE Technology Inc.	USA	US$75,954,000	100	100	67	Trading of audio-visual products and

						components
TCL Russia LLC	Russia	RUB3,000,000	100	100	67	Trading of audio-visual products and components
TCL Go Video	Cayman Islands/USA	US$0.1	100	100	-	Intellectual property holding

@

Direct subsidiaries of the Company

*

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

**

Registered as Sino-foreign joint ventures under the PRC law

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

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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21.

INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Share of net assets	110,444	157,088	146,375

The Group s trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 27 and 32 to the consolidated financial statements, respectively.

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

		Place of	Percentage of			
	Particulars of	incorporation/				
	issued shares/	registration	Ownership	Voting	Profit	Principal
Name	registered capital	and operations	interest	power	sharing	activities

Henan TCL-Melody Electronics Co., Ltd.	US$16,550,000	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Ordinary shares of PHP100 each	Philippines	50	50	50	Trading of audio-visual products

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21.

INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Share of the jointly-controlled entities assets			
and liabilities:			
Current assets	132,984	178,406	147,064
Non-current assets	17,494	46,414	49,413
Current liabilities	(38,016)	(65,897)	(48,000)
Non-current liabilities	(2,018)	(1,835)	(2,102)
Net assets	110,444	157,088	146,375
Share of the jointly-controlled entities results:			

Turnover	666,267	773,229	2,853,414
Other revenue	887	2,204	58,917
Total revenue	667,154	775,433	2,912,331
Total expenses	(662,419)	(765,091)	(2,817,815)
Tax	(1,146)	(1,130)	(14,052)
Profit after tax	3,589	9,212	80,464

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22.

INTERESTS IN AN ASSOCIATE

	Group		
	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Share of net assets	69,566	-	-

Particulars of the associate is as follows:

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

financial services

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

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

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

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Assets	582,740	-	-
Liabilities	85,840	-	-
Revenues	5,422	-	-
Loss	(502)	-	-

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23.

AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Unlisted equity investments, at cost	5,055	15,831	55,312
Provision for impairment	(2,730)	(1,058)	(13,011)
	2,325	14,773	42,301

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

24.

LONG TERM RECEIVABLES

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Angers Factory Assets	(a)	-	147,154	168,376
Trademark fee reinvestment	(b)	-	81,151	115,438
Restructuring costs reimbursement				
receivable from Thomson	34	-	54,338	-
Trade receivables	27	-	76,131	140,769
		-	358,774	424,583

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24.

LONG TERM RECEIVABLES (continued)

Notes:

(a)

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

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

According to the Settlement Term Sheet and the Master Agreement, the Assets Settlement was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 36), and a loss of approximately HK$10 million arising from the Assets Settlement was charged to the income statement for the year ended 31 December 2006 and was included as Net gain arising from the Settlement Term Sheet as detailed in note 7 to the consolidated financial

statements.

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24.

LONG TERM RECEIVABLES (continued)

(b)

	Note	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Total at 31 December		-	106,786	115,438
Less: Portion classified as current assets	29	-	(25,635)	-
Non-current portion		-	81,151	115,438

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

The Original Trademark Agreement was restated and replaced by the Amended and Restated Thomson Trademark License Agreement dated 1 July 2006 (the Amended Trademark Agreement). Pursuant to the Amended Trademark Agreement and as further supplemented by the terms of the Settlement Term Sheet, Thomson agreed to compensate the Group Euro10 million (the Compensation) for the restructuring of the Original Trademark Agreement. As a result of the restructuring, Thomson was fully released and discharged from the Advertising Obligations. According to the Settlement Term Sheet and the Master Agreement, the Compensation was settled by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 36), and the difference of approximately HK$11 million was charged to the Group s income statement for the year ended 31 December 2006 and was included as Net gain arising from the Settlement Term Sheet as detailed in note 7 to the consolidated financial statements.

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25.

PREPAID ROYALTY

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Total at 31 December	286,539	603,425	676,295
Less: Portion classified as current assets (note 29)	(16,943)	(39,751)	(55,927)
Non-current portion	269,596	563,674	620,368

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

Pursuant to the Settlement Term Sheet and the Master Agreement, Thomson agreed to repay TTE an amount of Euro30.4 million (the Partial Royalty Repayment) in respect of the portion of the Prepaid Royalty Amount that TTE

has allocated to TTE Europe. The Partial Royalty Repayment was settled partly by cash and partly by way of offsetting part of the loan due to Thomson as at 31 August 2006 (note 36). A loss of approximately HK$43 million arose from this settlement. The loss was charged to the Group s income statement for the year ended 31 December 2006 and was included as Net gain arising from the Settlement Term Sheet as detailed in note 7 to the consolidated financial statements.

26.

INVENTORIES

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Raw materials	848,461	1,495,297	1,441,926
Work in progress	271,349	319,628	365,715
Finished goods	2,087,109	2,784,414	2,757,859
	3,206,919	4,599,339	4,565,500

At 31 December 2006, certain of the Group s raw materials, work in progress and finished goods with net book values of HK$34,361,000 (2005 and 2004 (Unaudited): Nil), HK$1,174,000 (2005 and 2004 (Unaudited): Nil) and HK$17,757,000 (2005 and 2004 (Unaudited): Nil), respectively, were pledged to secure general banking facilities granted to a subsidiary of the Group (note 35).

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27.

TRADE AND BILLS RECEIVABLES

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Due from third parties:				
Trade receivables		3,053,823	5,191,517	4,842,183
Bills receivable		496,755	785,466	907,848
		3,550,578	5,976,983	5,750,031
Due from related parties:				
The ultimate holding company	28	1,987	30,004	-
Companies controlled by TCL Corporation	28	12,291	34,707	19,633
Thomson and companies controlled by Thomson (collectively the Thomson Group)	28	10,565	41,765	7,832
Jointly-controlled entities	28	19,709	29,645	35,047
		44,552	136,121	62,512
Total		3,595,130	6,113,104	5,812,543

Less: Portion classified as non-current				
assets	24	-	(76,131)	(140,769)
Current portion		3,595,130	6,036,973	5,671,774

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

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

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27.

TRADE AND BILLS RECEIVABLES (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Current to 90 days	3,274,377	5,593,526	5,191,272
91 to 180 days	163,770	124,902	552,555
181 to 365 days	119,421	247,726	65,602
Over 365 days	37,562	146,950	3,114
	3,595,130	6,113,104	5,812,543

At 31 December 2006, the Group s trade receivables of HK$764,384,000 (2005:HK$1,110,972,000 and 2004 (Unaudited): Nil) (the Factored Receivables) were factored to certain banks and a factoring company under certain receivables purchase agreements. The Group continued to recognise the Factored Receivables in the balance sheet because, in the opinion of the directors, the Group has retained substantially all the risks and rewards of ownership of the Factored Receivables, either the risks in respect of default payments or the time value of money, as at the balance sheet date.

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

Accordingly, the advances from the relevant banks of HK$764,384,000 (2005: HK$828,433,000 and 2004 (Unaudited): Nil) received by the Group as consideration for the Factored Receivables and the Discounted Bills at the balance sheet dates and the advances of HK$302,621,000 from a factoring company as consideration for the Factored Receivables as at 31 December 2005 were recognised as liabilities and included in Interest-bearing bank and other borrowings (note 35).

28.

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

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount of HK$281,747,000 (2005: HK$717,863,000 and 2004 (Unaudited): HK$246,965,000) due to the ultimate holding company which bears interest at 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People s Bank of China and 2004 (Unaudited): 5.022% per annum, being 10% discount below the six-month to one-year short term loan interest rate declared by the People s Bank of China).

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29.

OTHER RECEIVABLES

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Prepayments, deposits and other				
receivables		708,061	1,199,517	1,110,075
Prepaid land lease payments	17	2,263	5,440	3,807
Trademark fee reinvestment	24(b)	-	25,635	-
Prepaid royalty	25	16,943	39,751	55,927
Due from Thomson Group (note)	28	160,766	-	152,450
Due from the ultimate holding company	28	1,187	-	-
Restructuring costs reimbursement				
receivable from Thomson	34	37,705	-	-
		926,925	1,270,343	1,322,259

Note:

The balance as at 31 December 2006 represented the net amount receivable from the Thomson Group arising from the Settlement Term Sheet and the Master Agreement. It was fully settled by the Thomson Group on 16 February 2007.

30.

EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Equity securities listed in Hong Kong	-	9,941	32,801
Mutual funds listed in Europe	-	-	84,093
Call option (note)	-	37,653	-
At 31 December, at market value	-	47,594	116,894

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

Note:

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

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31.

CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Total cash and bank balances	1,904,633	1,952,122	1,833,272
Less: Time deposits pledged for			
banking facilities (note 35)	(10,000)	(90,165)	-
Cash and bank balances	1,894,633	1,861,957	1,833,272

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

Included in the Group s cash and bank balances are deposits of HK$62,056,000 (2005 and 2004 (Unaudited): Nil) placed with TCL Finance, a financial institution approved by the People s Bank of China. The interest rate for these deposits was 0.72% per annum, being the 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 47 to the consolidated financial statements.

Included also in the Group s cash and bank balances is a balance of HK$50,963,000 (2005 and 2004 (Unaudited): Nil) held in an escrow bank account which is designated to finance the termination costs in respect of the employees of the EU Business in France.

32.

TRADE AND BILLS PAYABLES

	Notes		2005	2004
			HK$ 000	HK$ 000
				(Unaudited)
Due to third parties:				
Trade payables		3,810,491	5,300,868	3,938,055
Bills payable		403,752	978,540	974,717
		4,214,243	6,279,408	4,912,772
Due to related parties:				
Companies controlled by TCL				
Corporation	28	225,066	226,011	245,864
The Thomson Group	28	58,391	242,159	1,430,065
Jointly-controlled entities	28	144,615	119,564	60,512
		428,072	587,734	1,736,441
		4,642,315	6,867,142	6,649,213

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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32.

TRADE AND BILLS PAYABLES (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Current to 90 days	4,580,604	6,547,730	6,123,466
91 to 180 days	35,744	77,039	479,123
181 to 365 days	25,967	197,155	15,610
Over 365 days	-	45,218	31,014
	4,642,315	6,867,142	6,649,213

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

33.

OTHER PAYABLES AND ACCRUALS

		2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Other payables and accruals	(a)	2,042,594	1,869,632	1,656,962
Due to the immediate holding company	(b)	36,040	47,039	-
Due to companies controlled by TCL Corporation	28	20,901	-	-
		2,099,535	1,916,671	1,656,962

(a)

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

(b)

The amount due to the immediate holding company is unsecured, interest-free and repayable on demand, except for a balance of HK$34,991,000 (2005: HK$46,652,000 and 2004 (Unaudited): Nil) which bears interest at 3.084% per annum, being the six-month LIBOR on the inception date of the advances.

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34.

PROVISIONS

	Restructuring costs	Warranties	Total
	HK$ 000	HK$ 000	HK$ 000
At 31 December 2004(Unaudited) and 1 January 2005	1,435	238,442	239,877
Arising during the year	164,393	277,749	442,142
Utilised during the year	(112,304)	(334,008)	(446,312)
Reversal of unutilised amounts	-	(29,637)	(29,637)
Exchange realignment	(2,097)	(6,571)	(8,668)
At 31 December 2005 and 1 January 2006	51,427	145,975	197,402
Arising during the year	517,251	698,334	1,215,585
Utilised during the year	(126,902)	(507,625)	(634,527)
Deconsolidation of a subsidiary (note 42(d))	(4,652)	-	(4,652)
Exchange realignment	19,753	11,767	31,520
At 31 December 2006	456,877	348,451	805,328

Restructuring costs

Pursuant to the Restructuring Cost Reimbursement Agreement dated 30 July 2004 (as supplemented and amended by the Reimbursement Agreement Amendment dated 1 September 2005), Thomson agreed to reimburse TTE up to Euro38 million of restructuring costs incurred within the first two years of the closing date (i.e. 30 July 2004) of the Combination Agreement in relation to the injection of the Thomson television businesses into TTE, subject to certain adjustment as may be agreed by the parties. The restructuring costs recoverable from Thomson during the year of HK$9,415,000 (2005: HK$164,587,000 and 2004(Unaudited): HK$35,014,000) were credited directly to restructuring costs in the income statement.

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

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

Warranties

The Group provides warranties of 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.

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35.

INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2006 HK$ 000	Effective interest rate (%)	Maturity	2005 HK$ 000	Effective interest rate (%) (Unaudited)	Maturity (Unaudited)	2 HK$ (Unaudi
rrent									
k rdrafts - ured	WIBOR+1.0	2007	53,048	5.6	2006	83,472	-	-	
k rdrafts - ecured	-	-	-	LIBOR/EURIBOR+0.6	2006	57,995	-	-	
k loans - ured	WIBOR+1.0	2007	6,475	4.5	2006	19,382	-	-	
k loans - ecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,114,831	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	On demand	1,538,300	HIBOR+0.8 (1.2 to 1.9)	2005	244,
k loans - ecured	4.3 to 7.1	2007	412,159	3.1 to 5.6	2006	328,625	1.7 to 3.1	2005	120,

vances n banks as sideration Factored eivables									
counted s	LIBOR+(0.3 to 0.5)	2007	764,384	LIBOR+(0.3 to 0.5)	2006	828,433	-	-	
vances n a oring npany as sideration Factored eivables	-	-	-	EURIBOR+0.5 HIBOR/SIBOR/	2006	302,621	-	-	
st receipt ns - ured	SIBOR+1	2007	6,785	LIBOR+(0.4 to 1.7)	2006	48,706	-	-	
st receipt ns - ecured	LIBOR+(0.7 to 1.0)	2007	79,327	HIBOR+(0.5 to 1.5)	2006	273,511	HIBOR+(0.5+1.5)	2005	205,
n from L Finance	5.3	2007	187,027	-	-	-	-	-	
er loan	3	On demand	36,546	-	-	-	-	-	
			2,660,582			3,481,045			570,
n-current									
k loans - ecured	-	-	-	-	-	-	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8)	2007 to 2009	1,622,
			2,660,582			3,481,045			2,192,

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35.

INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year or on demand	2,437,009	3,178,424	570,119
In the second year	-	-	94,118
In the third to fifth years, inclusive	-	-	1,528,016
	2,437,009	3,178,424	2,192,253
Other borrowings repayable			
within one year	223,573	302,621	
	2,660,582	3,481,045	2,192,253

Notes:

(a)

The Group s overdraft facilities amounting to HK$53,048,000 (2005: HK$175,443,000 and 2004(Unaudited): Nil), all of which (2005: HK$141,467,000 and 2004(Unaudited): Nil)) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group s time deposits, property, plant and equipment and inventories amounting to HK$Nil (2005: HK$59,911,000 and 2004(Unaudited): Nil), HK$Nil (2005: HK$90,090,000 and 2004(Unaudited): Nil) and HK$53,292,000 (2005 and 2004(Unaudited): Nil), respectively.

(b)

Certain of the Group s bank loans are secured by the pledge of certain of the Group s time deposits and items of property, plant and equipment amounting to HK$10,000,000 (2005: HK$30,254,000 and 2004(Unaudited): Nil) and HK$92,834,000 (2005 and 2004 (Unaudited): Nil), respectively.

(c)

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

(d)

Except for the unsecured bank loans with an aggregate carrying amount of HK$412,159,000 (2005: HK$328,625,000 and 2004(Unaudited): HK$120,259,000), the loan from TCL Finance of HK$187,027,000 (2005 and 2004(Unaudited): Nil) and the other loan of HK$36,546,000 (2005 and 2004(Unaudited): Nil), all other borrowings of the Group bear interest at floating rates.

In addition, the Company s ultimate holding company has guaranteed certain of the Group s bank loans up to HK$315,657,000 (2005:HK$91,267,000 and 2004(Unaudited): Nil) as at the balance sheet date.

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35.

INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
United States dollars	1,198,656	1,606,655	1,050,420
Euro	426,167	574,718	586,676
Japanese Yen	-	561	2,544

Breach of loan covenants

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

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

36.

DUE TO A SHAREHOLDER/MINORITY SHAREHOLDER

The loan as at 31 December 2005 was due to Thomson, bore interest at rates ranging from 2.36% to 4.26% (2004 (Unaudited): 2.36%) per annum (being the cost of fund of Thomson), and was secured by the Group s trade receivables with a carrying value of HK$536,364,000 (2004 (Unaudited): 1,033,796,000). This loan amount should have been fully repaid on 30 July 2006 and the related agreement was terminated automatically.

Pursuant to the Settlement Term Sheet and the Master Agreement, the outstanding and overdue sum related to this loan as at 31 August 2006 amounting to approximately Euro46 million (equivalent to approximately HK$472 million) was settled by way of offsetting the Assets Settlement, the Compensation and the Partial Royalty Repayments as further discussed in notes 24(a), 24(b) and 25, respectively.

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37.

CONVERTIBLE NOTES

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
At beginning of year	-	256,000	347,000
Redeemed during the year	-	(256,000)	(91,000)
At 31 December 2006	-	-	256,000

On 8 November 2005, the outstanding principal amount of the convertible notes amounting to HK$256,000,000, plus accrued interest, was redeemed by the Company.

The principal terms of the convertible notes are as follows:

Issue price

The aggregate principal amount of the convertible notes was HK$350,000,000, issued at par on

8 November 2002.

Term and maturity date

Unless previously redeemed, converted or purchased and cancelled, the convertible notes would be redeemed in Hong Kong dollars at 100% of their principal amounts, plus accrued interest on 8 November 2005.

Interest

The convertible notes bear interest at the rate of 3% per annum, which is payable semi-annually in arrears.

Conversion period

The conversion period commenced on 8 November 2002 and ended on 8 November 2005.

Conversion rights

The noteholders have the right at any time during the conversion period to convert the convertible notes in whole or in part of the principal amount of not less than HK$10,000 into new shares of the Company at an initial conversion price of HK$2.556 (subject to adjustment). In 2004, the conversion price of the convertible notes was adjusted from HK$2.556 per share (Unaudited) to HK$2.06 per share (Unaudited) as a result of the distribution in specie by the Company.

Redemption at the option of the Company

The Company has an option to redeem, in whole or in part, the convertible notes (being HK$10,000 in principal amount or an integral multiple thereof) at 100% of their principal amount plus interest accrued to but excluding the date of redemption, after 18 months from 8 November 2002 if the closing price of the Company s shares on the Stock Exchange for at least 20 dealing days in a period of 30 consecutive dealing dates on the Stock Exchange is at least 130% of the conversion price in effect on such dealing day.

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38.

DEFERRED TAX

Deferred tax liabilities

	Notes	Accelerated tax depreciation HK$ 000	Others HK$ 000	Total HK$ 000
At 1 January 2004 (Unaudited)		1,416	431	1,847
Acquisition of subsidiaries (Unaudited)	42(b)	29,305	-	29,305
Deferred tax charged/(credited) to the income statement during the year (Unaudited)	12	3,268	(431)	2,837
Gross deferred tax liabilities at 31 December 2004 (Unaudited) and 1 January 2005		33,989	-	33,989
Deferred tax credited to the income statement during the year	12	(9,769)	-	(9,769)

Exchange realignment		(163)	-	(163)
Gross deferred tax liabilities at 31 December 2005 and 1 January 2006		24,057	-	24,057
Deferred tax credited to the income statement during the year	12	(2,278)	-	(2,278)
Exchange realignment		129	-	129
Gross deferred tax liabilities at 31 December 2006		21,908	-	21,908

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38.

DEFERRED TAX (continued)

Deferred tax assets

	Notes	Elimination of unrealised profits arising from intra-group transactions	Accruals and other provisions	Pension provisions	Tax losses	Total
		HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
At 1 January 2004 (Unaudited)		4,625	4,230	-	-	8,855
Acquisition of subsidiaries						
(Unaudited)	42(b)	-	-	6,003	-	6,003
Deferred tax credited to the	12	675	947	1,313	-	2,935

income statement						
during the year (Unaudited)						
Exchange realignment						
(Unaudited)		-	-	790	-	790
Gross deferred tax assets						
at 31 December 2004 (Unaudited)						
and 1 January 2005		5,300	5,177	8,106	-	18,583
Deferred tax credited						
to the income statement						
during the year	12	2,000	6,515	981	782	10,278
Exchange realignment		-	(102)	(1,037)	(32)	(1,171)
Gross deferred tax assets						
at 31 December 2005						
and 1 January 2006		7,300	11,590	8,050	750	27,690
Deconsolidation of						
a subsidiary	42(d)	-	-	(7,671)	-	(7,671)
Deferred tax credited/(charged)						
to the income statement						
during the year	12	2,000	(3,845)	(1,265)	2,029	(1,081)
Exchange realignment		-	754	886	100	1,740
Gross deferred tax assets						
at 31 December 2006		9,300	8,499	-	2,879	20,678

The Group has tax losses of HK$3,739,284,000 (2005: HK$1,687,303,000 and 2004(Unaudited): HK$676,607,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, subject to certain tax rules of the countries in which the Group operates. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005 and 2004(Unaudited): Nil) for taxes that would be payable on the unremitted earnings of certain of the Group s subsidiaries, jointly-controlled entities or an associate.

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

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39.

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Net benefit expense			
Current service cost	33,399	21,469	4,421
Interest cost on benefit obligation	782	5,899	2,921
Net cumulative actuarial gain recognised in			
the income statement	(6,111)	(3,489)	-
Net benefit expense	28,070	23,879	7,342
Benefit liabilities			

Benefit obligation	15,280	167,088	141,043
Unrecognised net actuarial losses/(gains)	2,891	(1,473)	(10,993)
Benefit liabilities	18,171	165,615	130,050

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

At 1 January	165,615	130,050	-
Acquisition of subsidiaries (note 42(b))	-	29,992	122,046
Deconsolidation of a subsidiary (note 42(d))	(87,161)	-	-
Benefit expense (note 9)	28,070	23,879	7,342
Contributions	(30,478)	(3,731)	(42)
Curtailments	(68,089)	-	-
Exchange realignment	10,214	(14,575)	704
At 31 December	18,171	165,615	130,050

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

	2006	2005	2004
	%	%	%
			(Unaudited)
Discount rate	4.5 - 5.25	2.5 4.0	4.0 5.5
Future salary increases	2.0 5.0	2.0 5.0	1.0 7.0
Future pension increases	1.0	1.0	1.3 3.5
Healthcare cost increase rate	5.0 - 9.5	5.0 9.5	5.0 9.5

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40.

SHARE CAPITAL

Shares

	2006 HK$ 000	2005 HK$ 000	2004 HK$ 000 (Unaudited)
Authorised:			
8,000,000,000 shares (2005 and 2004(Unaudited): 500,000,000 shares) of HK$0.10 each	800,000	500,000	500,000
Issued and fully paid:			
3,902,951,727 (2005: 3,902,951,727 and 2004(Unaudited): 2,757,960,632) shares of HK$0.10 each	390,295	390,295	275,796

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

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

	Numbers of shares in issue	Issued share capital HK$ 000	Share premium account HK$ 000	Total HK$ 000
At 1 January 2004 (Unaudited)	2,681,328,559	268,133	1,273,754	1,541,887
Share options exercised (Unaudited)	41,029,577	4,103	65,883	69,986
Conversion of convertible notes (Unaudited)	35,602,496	3,560	87,440	91,000
Distribution in specie (Unaudited)	-	-	(1,389,347)	(1,389,347)
At 31 December 2004 (Unaudited) and 1 January 2005	2,757,960,632	275,796	37,730	313,526
Share options exercised	809,000	81	723	804
Exchange Option exercised	1,144,182,095	114,418	1,521,762	1,636,180
At 31 December 2005,1 January 2006 and 31 December 2006	3,902,951,727	390,295	1,560,215	1,950,510

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40.

SHARE CAPITAL (continued)

Share options

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

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

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

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

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

At 31 December 2006, the number of shares issuable under share options granted under the schemes was 135,420,000 (2005: 183,342,861 and 2004(Unaudited): 32,316,861), which represented approximately 3.5% (2005: 4.7% and 2004(Unaudited): 1.2%) of the Company s shares in issue as at that date.

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40.

SHARE CAPITAL (continued)

Share options (continued)

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

Name or category of participant	Number of share options: At 1 January 2006	Reclassified during the year	Expired during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options[r]	Exercise price of share options HK$ per share	Exercise period of share options	Price of Company s shares at date of grant [#] HK$ per share	Price of Company s shares immediately before the exercise date HK$ per share	Price o Company shares a exercise date HKS per share
Directors											
Executive directors											
	5,000,000	-	-	-	5,000,000		1.400	Note 3	1.410	-	-

Li Dongsheng						31 May 2005					
Lu Zhongli	2,500,000	-	-	-	2,500,000	31 May 2005	1.400	Note 3	1.410	-	-
Hu Qiusheng	2,500,000	(2,500,000)	-	-	-	31 May 2005	1.400	Note 3	1.410	-	-
Yan Yong, Vincent	68,000	-	(68,000)	-	-	30 January 2003	2.114	Note 2	2.075	-	-
	3,450,000	(3,450,000)	-	-	-	31 May 2005	1.400	Note 3	1.410	-	-
	3,518,000	(3,450,000)	(68,000)	-	-						
Wang Kangping	-	100,000	(100,000)	-	-	30 January 2003	2.114	Note 2	2.075	-	-
	-	1,400,000	-	-	1,400,000	31 May 2005	1.400	Note 3	1.410	-	-
	-	1,500,000	(100,000)	-	1,400,000						
Shi Wanwen	-	2,600,000	-	-	2,600,000	31 May 2005	1.400	Note 3	1.410	-	-
Yuan Bing	-	330,000	-	-	330,000	31 May 2005	1.400	Note 3	1.410	-	-
Zhao Zhongyao	68,000	(68,000)	-	-	-	30 January 2003	2.114	Note 2	2.075	-	-
	3,200,000	(3,200,000)	-	-	-	31 May 2005	1.400	Note 3	1.410	-	-
	3,268,000	(3,268,000)	-	-	-						
	16,786,000	(4,788,000)	(168,000)	-	11,830,000						

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40.

SHARE CAPITAL (continued)

Share options (continued)

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

or ory ipant	Number of share options									Price of	
	At 1 January 2006	Reclassified during the year	Expired during the year	Lapsed during the year	At 31 December 2006	Date of grant of share options[r]	Exercise price of share options HK$ per share	Exercise period of share options	Price of Company s shares at date of grant [#] HK$ per share	Company s shares immediately before the exercise date HK$ per share	Pr Com sha ex per
xecutive directors											

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ior	300,000	-	-	-	300,000	31 May 2005	1.400	Note 3	1.410	-
ng	300,000	-	-	-	300,000	31 May 2005	1.400	Note 3	1.410	-
Bing	300,000	-	-	-	300,000	31 May 2005	1.400	Note 3	1.410	-
ning,	300,000	(300,000)	-	-	-	31 May 2005	1.400	Note 3	1.410	-
	1,200,000	(300,000)	-	-	900,000					
r employees										
	10,000,000	-	(10,000,000)	-	-	4 November 2002	2.305	Note 1	2.175	-
	20,286,861	(32,000)	(20,254,861)	-	-	30 January 2003	2.114	Note 2	2.075	-
	135,070,000	5,120,000	-	(17,500,000)	122,690,000	31 May 2005	1.400	Note 3	1.410	-
	165,356,861	5,088,000	(30,254,861)	(17,500,000)	122,690,000					
	183,342,861	-	(30,422,861)	(17,500,000)	135,420,000					

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40.

SHARE CAPITAL (continued)

Share options (continued)

Note 1

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

Note 2

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

Note 3

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

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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.

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

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

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

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

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41.

RESERVES

	Attributable to equity holders of the parent								
	Share premium account	Share option reserve	Capital reserve^	Reserve funds*	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
At 1 January 2004									
As previously reported (Unaudited)	1,273,754	-	66,204	492,205	39,550	1,708,405	3,580,118	100,079	3,680,197
Prior year adjustments (Unaudited)	-	7,085	-	-	-	(7,085)	-	-	-
Issue of shares upon	65,883	-	-	-	-	-	65,883	-	65,883
exercise of share									

options (note 40) (Unaudited)									
Issue of shares upon conversion of convertible notes (note 40) (Unaudited)	87,440	-	-	-	-	-	87,440	-	87,440
Goodwill realised on disposal of a jointly-controlled entity (Unaudited)	-	-	1,977	-	-	-	1,977	-	1,977
Exchange realignment (Unaudited)	-	-	-	-	66,393	-	66,393	33,075	99,468
Realised on disposal (Unaudited)	-	-	-	(198)	-	198	-	-	-
Profit/(loss) for the year (Unaudited)	-	-	-	-	-	308,985	308,985	(21,041)	287,944
Acquisition of subsidiaries (Unaudited)	-	-	-	-	-	-	-	1,318,760	1,318,760
Incorporation of a non-wholly owned subsidiary (Unaudited)	-	-	-	-	-	-	-	312	312
Disposal of a subsidiary (Unaudited)	-	-	-	-	-	-	-	(5,033)	(5,033)
Dividends paid to minority Shareholders (Unaudited)	-	-	-	-	-	-	-	(4,070)	(4,070)
	-	7,729	-	-	-	-	7,729	-	7,729

Equity-settled share option arrangements (Unaudited)									
Final 2003 dividend (Unaudited)	-	-	-	-	-	(1,544)	(1,544)	-	(1,544)
Interim 2004 dividend (Unaudited)	-	-	-	-	-	(110,316)	(110,316)	-	(110,316)
Distribution in specie (Unaudited)	(1,389,347)	-	(9,082)	(69,683)	(6,544)	123,071	(1,351,585)	-	(1,351,585)
Proposed final 2004 dividend (note 14) (Unaudited)	-	-	-	-	-	(110,346)	(110,346)	-	(110,346)
Transfer from retained profits (Unaudited)	-	-	-	65,388	-	(65,388)	-	-	-
At 31 December 2004(Unaudited)	37,730	14,814	59,099	487,712	99,399	1,845,980	2,544,734	1,422,082	3,966,816
At 1 January 2005									
As previously reported	37,730	-	59,099	487,712	99,399	1,860,794	2,544,734	1,422,082	3,966,816
Prior year adjustments	-	14,814	-	-	-	(14,814)	-	-	-
Opening adjustments	-	-	-	-	-	657,892	657,892	-	657,892
Set-off of goodwill arising from the Share Exchange (note 42(a)(ii))	-	-	-	-	-	(520,725)	(520,725)	-	(520,725)
Issue of shares upon	723	-	-	-	-	-	723	-	723

exercise of share options (note 40)									
Issue of shares upon exercise of the Exchange Option (note 40)	1,521,762	-	-	-	-	-	1,521,762	-	1,521,762
Exchange realignment	-	-	-	-	(33,933)	-	(33,933)	(28,867)	(62,800)
Loss for the year	-	-	-	-	-	(598,893)	(598,893)	(104,374)	(703,267)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(21,110)	(21,110)
Acquisition of minority interests (note 42(a)(ii))	-	-	-	-	-	-	-	(1,159,255)	(1,159,255)
Equity-settled share option arrangements	-	28,661	-	-	-	-	28,661	-	28,661
Transfer from retained profits	-	-	-	81,074	-	(81,074)	-	-	-
At 31 December 2005	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697

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41.

RESERVES (continued)

	Attributable to equity holders of the parent								
	Share premium account	Share option reserve	Capital reserve^	Reserve funds*	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total
	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000	HK$ 000
At 31 December 2005 and 1 January 2006	1,560,215	43,475	59,099	568,786	65,466	1,303,180	3,600,221	108,476	3,708,697
Exchange realignment	-	-	-	-	85,669	-	85,669	3,465	89,134
Loss for the year	-	-	-	-	-	(2,497,314)	(2,497,314)	(3,158)	(2,500,472)
Disposal of subsidiaries	-	-	-	-	-	-	-	(19,907)	(19,907)

(note 42(c))									
Equity-settled share option arrangements	-	22,295	-	-	-	-	22,295	-	22,295
Share options expired/lapsed during the year	-	(20,376)	-	-	-	20,376	-	-	-
Transfer from retained profits	-	-	-	99,476	-	(99,476)	-	-	-
At 31 December 2006	1,560,215	45,394	59,099	668,262	151,135	(1,273,234)	1,210,871	88,876	1,299,747

*

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

^

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

The amount of goodwill arising on the acquisition of a subsidiary remaining eliminated against the capital reserve is explained in note 18 to the consolidated financial statements.

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a)

Acquisition of minority interests

(i)

For the year ended 31 December 2006

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

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

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

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a)

Acquisition of minority interests (continued)

(ii)

For the year ended 31 December 2005

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

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

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

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

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

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b)

Business combination

In 2005, the Group acquired the entire equity interests of certain subsidiaries from Thomson. The subsidiaries acquired are engaged in product sales, marketing and management, the design and styling activities related to television products.

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

	Notes	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Net assets acquired:				

Property, plant and equipment	16	-	-	1,202,938
Prepaid land lease payments	17	-	-	29,453
Long term investments		-	-	1,164
Long term receivables		-	-	258,775
Deferred tax assets	38	-	-	6,003
Cash and bank balances		-	-	140,910
Inventories		-	-	1,724,038
Trade and bills receivables		-	83,539	752,139
Prepayments, deposits and other receivables		-	52,131	932,174
Trade and bills payables		-	(77,162)	(898,502)
Tax payable		-	-	(87,833)
Other payables and accruals		-	(17,043)	(189,164)
Due to related companies, net		-	-	(1,187,855)
Provisions		-	-	(166,876)
Bank borrowings		-	-	(149,030)
Deferred tax liabilities	38	-	-	(29,305)
Pensions and other post-employment benefits	39	-	(29,992)	(122,046)
Minority interests		-	-	(688,372)
		-	11,473	1,528,611
Negative goodwill on acquisition	18	-	-	(597,836)
		-	11,473	930,775

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b)

Business combination (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Cash paid	-	(11,473)	(300,387)
Cash and bank balances acquired	-	-	140,910
Net outflow of cash and cash equivalents			
in respect of the acquisition of subsidiaries	-	(11,473)	(159,477)

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

(c)

Disposal of subsidiaries

	Note	2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Net assets disposed of:				
Property, plant and equipment	16	303,264	-	2,391
Prepaid land lease payments	17	4,836	-	-
Goodwill	18	150,139	-	4,673
Available-for-sale investments		11,858	-	-
Interest in a jointly-controlled entity		49,494	-	-
Long term receivables		38,678	-	-
Inventories		157,500	-	555
Cash and bank balances		16,159	-	2,958
Trade and bills receivables		412,331	-	551
Other receivables		148,851	-	3,129
Tax recoverable		1,219	-	-
Trade and bills payables		(276,048)	-	(243)
Other payables and accruals		(65,574)	-	(2,729)
Interest-bearing bank and other borrowings		(175,593)	-	(943)
Due to Group companies, net		(382,785)	-	-
Tax payable		(565)	-	(374)
Minority interests		(19,907)	-	(5,034)
		373,857	-	4,934
Loss on disposal	9	-	-	(2,075)
Satisfied by cash		373,857	-	2,859

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c)

Disposal of subsidiaries (continued)

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Cash consideration received	373,857	-	2,859
Cash and bank balances disposed of	(16,159)	-	(2,958)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary	357,698	-	(99)

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42.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d)

Deconsolidation of a subsidiary

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

	Note	2006 HK$ 000	2005 HK$ 000	2004 HK$ 000 (Unaudited)
Net liabilities of TTE Germany:				
Property, plant and equipment	16	5,156	-	-

	Note			
Deferred tax assets	38	7,671	-	-
Cash and bank balances		1,524	-	-
Due from Group companies, net		69,984	-	-
Other receivables		8,975	-	-
Tax recoverable		447	-	-
Trade and bills payables		(167)	-	-
Other payables and accruals		(13,903)	-	-
Provisions	34	(4,652)	-	-
Pensions and post-employment benefits	39	(87,161)	-	-
		(12,126)	-	-
Gain on deconsolidation of a subsidiary	7	12,126	-	-
		-	-	-
Net outflow of cash and bank balances in respect of the deconsolidation of a subsidiary		(1,524)	-	-

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43.

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Within one year	96	4,314	-
In the second to fifth years, inclusive	24	12,171	-

	120	16,485	-

(b)

As lessee

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

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Within one year	33,301	39,944	25,415
In the second to fifth years, inclusive	73,689	77,679	17,192
After five years	16,449	16,851	222
	123,439	134,474	42,829

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44.

COMMITMENTS

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000 (Unaudited)
Contracted, but not provided for	198	10,389	134,639
Authorised, but not contracted for	2,529	-	-
	2,727	10,389	134,639

In addition, the Group s share of jointly-controlled entities own capital commitments at the balance sheet date, which were not included in the above, was as follows:

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000

			(Unaudited)
Contracted, but not provided for	-	-	88

45.

CONTINGENT LIABILITIES

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

	2006	2005	2004
	HK$ 000	HK$ 000	HK$ 000
			(Unaudited)
Bills discounted with recourse	-	-	46,396
Guarantees given in lien of utility			
and rental deposits	1,543	4,446	3,525
	1,543	4,446	49,921

46.

PLEDGE OF ASSETS

Details of the Group s bank loans and overdrafts and amount due to a shareholder/minority shareholder, which are secured by the assets of the Group, are included in notes 16, 26 and 35 to the consolidated financial statements.

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47.

RELATED PARTY TRANSACTIONS

(a)

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

		2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Jointly-controlled entities:				
Sales of raw materials	(i)	1,030,009	1,186,725	1,400,358
Sales of finished goods	(ii)	74,748	97,642	78,592
Purchases of finished goods	(iii)	1,108,823	1,280,408	1,497,427
Ultimate holding company:				
Interest expense	(iv)	18,869	21,762	20,368
Immediate holding company:				
Interest expense	(v)	1,183	621	-

An associate:				
Interest income	(vi)	4	-	-
Interest expense	(vii)	591	-	-
Companies controlled by TCL Corporation:				
Sales of raw materials	(i)	-	4,654	29,151
Sales of finished goods	(ii)	808	-	-
Purchases of raw materials	(iii)	806,025	608,839	581,500
Purchases of finished goods	(iii)	53,705	108,217	41,501
Sales handling fee income	(xxiv)	-	-	858
Subcontracting fee expense	(viii)	12,554	13,066	16,926
Interest income	(ix)	3,387	-	-
Rental, maintenance fees and facilities usage fees	(x)	4,033	3,035	-
Rental expense	(xi)	2,840	-	-
Interest expense	(xii)	985	-	-
Reimbursement of brand advertising costs	(xiii)	59,106	-	-

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47.

RELATED PARTY TRANSACTIONS (continued)

(a)

(continued)

		2006	2005	2004
		HK$ 000	HK$ 000	HK$ 000
				(Unaudited)
Thomson Group:				
Sales of finished goods	(ii)	80,063	293,538	351,743
Purchases of raw materials	(iii)	97,334	2,077,850	1,738,305
Purchases of finished goods	(xiv)	-	838,580	1,024,748
Agency fee and cost reimbursement expense	(xv)	-	872,207	454,977
Styling service fee expense	(xv)	-	21,744	18,980
Shared service fee expense	(xv)	270,213	241,687	129,336
Interest expense	(xvi)	17,432	24,783	9,083
Patent royalty expense	(xvii)	15,118	30,991	18,670

Reimbursement of brand				
advertising costs	(xviii)	40,357	14,476	11,973
Trademark royalty fee	(xix)	43,631	20,025	-
Strategic sourcing fee expense	(xx)	-	27,000	11,848
After-sales and related services				
fee expense	(xv)	49,476	16,787	-
Laboratory service fee expense	(xv)	3,255	1,314	-
Reimbursement of reorganisation				
costs	(xxi)	-	57,903	-
Subcontracting fee expense	(xxii)	162,788	234,285	-
Styling service fee income	(xxiii)	2,873	1,608	-
Logistics management service				
fee income	(xxiii)	1,963	965	-

Notes:

(i)

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

(ii)

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

(iii)

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

(iv)

The interest was charged at a rate of 4.32% per annum, being the loan interest rate offered by the Export-Import Bank of China (2005: 2.8% per annum, being the discount rate for bills of exchange offered by the People s Bank of China, and 2004(Unaudited): 5.022% per annum, being 10% discount below the six-month to one-year short term loan interest rate declared by the People s Bank of China).

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47.

RELATED PARTY TRANSACTIONS (continued)

(a)

(continued)

Notes: (continued)

(v)

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

(vi)

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

(vii)

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

(viii)

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

(ix)

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

(x)

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

(xi)

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

(xii)

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

(xiii)

The brand advertising costs represent advertising costs incurred by companies controlled 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.

(xiv)

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

(xv)

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

(xvi)

The interest was charged at rates ranging from 3.78 to 6.1% (2005: from 2.36% to 4.26% and 2004(Unaudited): 2.36%) per annum, being the cost of fund of Thomson.

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47.

RELATED PARTY TRANSACTIONS (continued)

(a)

(continued)

Notes: (continued)

(xvii)

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

(xviii)

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

(xix)

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

(xx)

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

(xxi)

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

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

(xxii)

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

(xxiii)

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

(xxiv)

The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.

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47.

RELATED PARTY TRANSACTIONS (continued)

(b)

Other transactions with related parties:

(i)

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

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

(ii)

On 4 July 2005, the Company and TCL International Electronics (BVI) Limited (TCLIE), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with TCL Corporation for the

acquisition of the remaining 49% equity interest in the Sales Company owned by TCL Corporation at a consideration of Euro6.5 million (equivalent to approximately HK$63 million). This acquisition was completed on 10 May 2006 and the Sales Company became a wholly-owned subsidiary of the Group. Further details of this acquisition were set out in the Company s announcement dated 5 July 2005.

(iii)

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

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

(iv)

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

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

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47.

RELATED PARTY TRANSACTIONS (continued)

(v)

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

.

Thomson to waive approximately Euro15.4 million trade payables owed by TTE Europe;

.

Thomson to repay TTE Europe approximately Euro30.4 million in respect of the Prepaid Royalty Amount;

.

The TCL Parties and the Thomson Parties to restructure the Original Trademark Agreement and the Thomson Parties to compensate the TCL Parties Euro10 million for the restructuring of the Original Trademark Agreement;

.

Thomson to pay to TTE the amount of Euro15 million as full settlement of the Angers Factory Assets; and

.

The TCL Parties and the Thomson Parties to terminate/restructure certain cooperative agreements related to the EU Business and settle outstanding balances owed to each party.

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

Further details of the Settlement Term Sheet were set out in the Company s announcement dated 27 October 2006 and details of the financial impacts of the Settlement Term Sheet and the Master Agreement were set out in notes 7, 24, 25, 36 and 49 to the consolidated financial statements.

(c)

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

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

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48.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Cash flow interest rate risk

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

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

Foreign currency risk

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

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

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48.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

Liquidity risk

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

49.

POST BALANCE SHEET EVENTS

(i)

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

(ii)

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

(iii)

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

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49.

POST BALANCE SHEET EVENTS (continued)

(iv)

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

The Rights Issue became unconditional on 11 July 2007 and the Company raised a total of approximately HK$781 million (before expenses) by the issue of approximately 1,951 million Rights Shares. Further details of the Rights Issue are set out in the Company s announcements dated 15 May 2007 and 12 July 2007 and circular dated 5 June 2007.

(v)

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

US$140 million (equivalent to approximately HK$1,095 million).

The Bonds were issued and completion of the Purchase Agreement took place on 12 July 2007. Further details of the issue of the Bonds are set out in the Company s announcements dated 21 May 2007 and 12 July 2007.

(vi)

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

50.

COMPARATIVE AMOUNTS

The comparative income statements have been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative periods (note 13).

51.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on

13 July 2007.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP

The Group s consolidated financial statements have been prepared in accordance with HKFRSs which differ in certain material respects from those applicable generally accepted accounting principles in the United States (USGAAP). The significant differences relate principally to the following items and the adjustments considered necessary to present the consolidated net loss for the year ended 31 December 2006 and shareholders equity as at 31 December 2006 in accordance with USGAAP are shown in the tables below:

Consolidated net loss for the year ended 31 December 2006

	Note	HK$ 000
Loss for the year as reported in the consolidated income statement		
under HKFRSs		(2,500,472)
Less: Minority interests	52(r)	(3,158)
Loss for the year attributable to equity holders of the parent		
As reported in the consolidated income statement under HKFRSs		(2,497,314)
Accounting for goodwill	52(c)	(73,983)

Net loss for the year under USGAAP	(2,571,297)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	
Basic	
- For net loss for the year	HK(65.88) cents
- For net loss from continuing operations	HK(66.07) cents
Diluted	
- For net loss for the year	N/A
- For net loss from continuing operations	N/A

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

Shareholders equity as at 31 December 2006		
Equity as reported in the consolidated balance sheet under HKFRSs		1,690,042
Less: Minority interests	52(r)	88,876
Equity attributable to equity holders of the parent as reported in		
the consolidated balance sheet under HKFRSs		1,601,166
Accounting for goodwill	52(c)	28,249
Shareholders equity under USGAAP		1,629,415

(a)

Business combination

Under HKFRSs, the purchase price is determined and measured at the date of exchange in a business combination. The date of exchange is the date in which the acquirer has obtained control over the net assets and operations of the acquiree. Purchase price considerations in the form of marketable equity instruments are measured as at the date of exchange. Transactions between related parties, such as between entities with common control, are accounted for as a business combination at fair value unless certain conditions are met for merger accounting which is recognised at

historical cost.

Under USGAAP, the purchase price is determined and measured, at fair value, at the acquisition date which is the date in which the terms of the business combination are agreed to and announced. Purchase price considerations in the form of marketable equity instruments are measured based on their market prices over a reasonable period of time before and after the acquisition date.

Under HKFRSs, acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Under USGAAP, the acquisition of some or all of the noncontrolling equity interests in a subsidiary, whether by the parent, the subsidiary itself, or another affiliate, shall be accounted for using the purchase method.

The Group has assessed the differences related to the accounting for business combination under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(b)

Basis of consolidation

Under HKFRSs, a subsidiary is defined as an entity that is controlled by another entity . For this purpose, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A parent may consolidate a subsidiary when it owns half or less of the voting power of an entity, so long as the parent can demonstrate that it has control over the subsidiary through one of the following criteria: a) power over more than half of the voting rights by virtue of an agreement with other investors; b) power to govern the financial and operating policies of the entity under a statute or an agreement; c) power to appoint or remove the majority of the members of the board of directors; or d) power to cast the majority of votes at meetings of the board of directors. If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations , an entity will apply the presentation for assets held for sale, rather than normal line by-line consolidation presentation.

Under USGAAP, consolidation is required when one of the companies in a group directly or indirectly has a controlling financial interest in the other companies. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule ownership by one company, directly or indirectly, of over 50% of the outstanding voting shares of another entity. Consolidation of majority-owned subsidiaries is required in the preparation of consolidated financial statements, unless control does not rest with the majority owner. In addition, an entity is to be considered for consolidation if the entity is a variable interest entity

(VIE), for which the reporting entity acts as the primary beneficiary. An VIE is an entity in which the reporting entity does not have a controlling interest but that absorbs the majority of the VIE expected losses or residual returns must consolidate the VIE.

The Group has assessed the differences related to the basis of consolidation under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(c)

Accounting for goodwill

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

Goodwill 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.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(c)

Accounting for goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the 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 are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of cash-generating units (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or the 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.

Under HKFRSs, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business. Moreover, prior to 1 January 2005, goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Under USGAAP, the excess of the purchase consideration over the sum of the amounts assigned to assets acquired less liabilities assumed, is accounted for as goodwill. Prior to 1 January 2002, goodwill that arose from any business combination was amortised on the straight-line basis over its estimated useful life. With effect from 1 January 2002, amortisation of goodwill is prohibited and that goodwill must be reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Under USGAAP, all goodwill must be assigned to a reporting unit of the business on acquisition. Each reporting unit that has been assigned goodwill must then be reviewed annually to identify potential impairment. Initially, the fair value of a reporting unit should be compared with its carrying amount. If the carrying amount of a reporting unit, including goodwill, exceeds its fair value then the goodwill should be tested to measure the amount of the impairment loss, if any. The fair value of goodwill is derived from an allocation of the fair value of the reporting unit to its identified assets and liabilities. The excess of the goodwill s carrying value over its derived fair value is recognised as an impairment loss. An impairment loss for goodwill cannot be subsequently reversed.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(c)

Accounting for goodwill (continued)

Differences related to the accounting for goodwill under HKFRSs and USGAAP that have a material impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 are summarised below:

	HK$ 000
Consolidated income statement	
Loss on disposal of subsidiaries as reported in the consolidated income statement under HKFRSs	-
USGAAP adjustment reversal of goodwill amortised prior to 1 January 2005	(73,983)
Loss on disposal of subsidiaries under USGAAP	(73,983)
Consolidated balance sheet	
Goodwill as reported in the consolidated balance sheet	119,638

under HKFRSs	
USGAAP adjustment reversal of goodwill amortised	
prior to 1 January 2005	28,249
Goodwill under USGAAP	147,887

(d)

Accounting for negative goodwill

Under HKFRSs, negative goodwill represents the excess of the acquirer s interest in the net fair value of the acquirees identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the date of acquisition. Negative goodwill is recognised in the income statement immediately.

Under USGAAP, in a business combination in which the fair values of the identifiable net assets acquired exceeds the cost of the acquired business, the excess over cost (i.e. negative goodwill) should reduce, on a pro rata basis, amounts assigned to all of the acquired assets, including purchased research and development assets acquired and charged to expense, with the exception of financial assets (other than investments accounted for by the equity method), assets to be disposed of by sale, deferred tax assets, prepaid assets relating to pension or other post-retirement benefit plans, and any other current assets. Any remainder should be recognised as an extraordinary gain.

The Group has assessed the differences related to the accounting for negative goodwill under HKFRSs and USGAAP and determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(e)

Inventories

Under HKFRSs, inventories are stated at the lower of cost and net realisable value. Net realisable value is based on the estimated selling price in the ordinary course of business less any estimated costs to be incurred to completion and disposal.

Under USGAAP, inventories are stated at the lower of cost or market value in which market value shall not exceed the net realisable value and market value shall not be less than net realisable value reduced by an allowance for an approximate normal profit margin.

Under HKFRSs, inventory provisions can be written back whenever they are no longer required. Under USGAAP, a provision to write down inventories to market value cannot be reversed until the related inventory item is sold.

The Group has assessed the differences related to the accounting for inventories under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the

Group as at 31 December 2006 to be immaterial.

(f)

Impairment of long-lived assets

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

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

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

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(f)

Impairment of long-lived assets (continued)

Under USGAAP, long-lived assets and certain identifiable intangible assets held and used by an entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability, the entity estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of the asset and its eventual disposal. If the sum of such expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised to adjust the asset to its fair value. Long-lived assets to be disposed of are stated at the lower of carrying amount or fair value less cost to sell.

Once impairment is recognised, the reduced carrying amount of the asset is accounted for as its new cost. For depreciable assets, the new cost is depreciated over the asset s remaining useful life. Restoration of previously recognised impairment losses on assets is prohibited, except for impairment losses recorded on assets to be disposed of. However, if the fair value of an asset to be disposed of increases, resulting in a write-up, the increased carrying amount cannot exceed the carrying amount of the asset before the decision to dispose of the asset was made.

The Group has assessed the differences related to the accounting for impairment of long-lived assets under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(g)

Derecognition of financial assets

Under HKFRSs, if an entity transfers a financial asset to another party, it assesses whether it has transferred substantially all the risks and rewards of ownership of the transferred asset. If an entity has retained substantially all such risks and rewards, it does not derecognise that transferred asset. If it has transferred substantially all such risks and rewards, it derecognises the transferred asset. If an entity has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset, it assesses whether it has retained control over the transferred asset. If it has retained control, the entity continues to recognise the transferred asset to the extent of its continuing involvement in the transferred asset. If it has not retained control, the entity derecognises the transferred asset. When an entity continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability.

Under USGAAP, a sale of financial asset will result in the derecognition of the asset only if certain criteria are met, including but not limited to the need to demonstrate legal isolation of the asset from the transferor. If the criteria for sales recognition are not met, the transferor would account for the transaction as a secured borrowing with a pledge of collateral.

The Group has assessed the differences related to the accounting for derecognition of financial assets under HKFRSs and USGAAP has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(h)

Accounting for derivatives

Under HKFRSs, an embedded derivative is defined as a component of a hybrid (combined) instrument that also includes a non-derivative host contract - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variables. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

A financial instrument with an embedded derivative is required to be bifurcated and accounted for separately. In the case of a convertible bond issuance, the fair value of the debt component is determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The difference between the proceeds received from the convertible bond issuance and the fair value assigned to the debt component represents the embedded derivative and is initially recognised as an equity instrument or a financial instrument (a financial liability) depending on its characteristics. If the embedded derivative is determined to be a financial liability, its value is subsequently remeasured at its fair value at each subsequent reporting date. Changes in the fair value of the embedded derivative instrument are credited/charged to the income statement, unless the derivative meets the

criteria for a hedge relationship in which case the gain or loss may be recognised directly in equity or offset in the income statement against an opposite loss or gain on the item it is hedging. Moreover, a call, put, surrender or prepayment option embedded in a host debt instrument is not closely related to the host instrument unless the option s exercise price is approximately equal to the debt instrument s amortised cost on each exercise date.

Under USGAAP, an embedded derivative has implicit or explicit terms within a contract, that do not in their entirety meet the definition of a derivative instrument, and that affect in a manner similar to a derivative instrument some or all of the cash flows or the value of other exchanges required by the contract. Among other criteria, whether the economic characteristics and risks of the embedded derivative are clearly and closely related to economic characteristics and risks of the host contract in evaluating whether the embedded derivative must be bifurcated and accounted for separately from the host instrument. Embedded derivatives that are required to be bifurcated and accounted for separately are treated in the same manner as freestanding derivatives. Calls and puts which are triggered upon the occurrence of contingent events may also meet the definition of derivative instruments that require separate accounting at fair value. The host contract shall be accounted for based on generally accepted accounting principles applicable to instruments of that type that do not contain embedded derivative instruments.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(h)

Accounting for derivatives (continued)

All derivative instruments are recorded at fair value and changes in their fair value are recorded to the income statement unless hedge accounting is eligible and has been applied. Convertible debt instruments that are convertible into the issuer s own common shares are generally treated as a debt instrument and therefore the debt component and its conversion option are not bifurcated and recognised separately. If the convertible instruments are not bifurcated then the conversion terms must be assessed to determine if a beneficial conversion feature exists at inception and subsequent remeasurement dates, including events triggering a change to the conversion terms.

Th Group has assessed the differences related to the accounting for derivatives under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(i)

Research and development costs

Under HKFRSs, all research costs or expenditures on intangible items that did not meet the asset recognition criteria as an intangible asset are charged to the income statement. Development expenditures are also expensed as incurred except where all of the following criteria are satisfied: there is a clearly defined product; the related expenditure is separately identifiable and can be measured reliably; the technical feasibility of the product or process can be demonstrated; the enterprise intends to produce and market or use the product or process; the existence of a market for the product or process can be demonstrated; and adequate resources exist to enable the project to be completed, marketed or used.

Under USGAAP, all research and development costs are generally expensed as incurred except for equipment or facilities that are acquired or constructed for research and development activities and that have alternative future uses which should be capitalised and depreciated as tangible assets.

The Group has assessed the differences related to the accounting for research and development costs under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

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SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(j)

Cash flow statement

Under HKFRSs, interest and dividends that are paid or received may be classified in a consistent manner from period to period as either operating, investing or financing activities. Advances from banks repayable within three months from the date of the advance are netted with positive cash balances for purposes of determining cash and cash equivalents for the cash flow statement.

USGAAP requires interest paid and dividends and interest received be classified as operating activities. Advances from banks are generally treated as a source of cash financing.

The above differences between HKFRSs and USGAAP only resulted in differences in the classification of items in the Group s cash flow statement and have had no impact on the Group s loss for the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006.

(k)

Investments

Under HKFRSs, available-for-sale investments in equity securities, after initial recognition, are measured at fair value with unrealised 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.. 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.

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 with the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Under USGAAP, available-for-sale securities should be carried at their fair values with unrealised holding gains and losses reported as a separate component of shareholders equity. If the unrealised holding losses represent another than temporary decline in the fair values of the available-for-sale securities then such losses should be reported as a charge to the income statement. Quoted market prices, if available, are the best evidence of the fair value of the investments. If quoted market prices are not available, management s best estimate of fair value may be based on the quoted market price of a financial instrument with similar characteristics or on valuation techniques (for example, the present value of estimated future cash flows using a discount rate commensurate with the risks involved, option pricing models, or matrix pricing models).

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(k)

Investments (continued)

The Group has assessed the differences related to the accounting for investments under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(l)

Deferred income taxes

Under HKFRSs, deferred tax liabilities are recognised for all taxable temporary differences except in certain situations including when difference arises from taxable temporary differences associated with investments in subsidiaries. In such cases, the deferred tax liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled by the parent and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised except in certain situations including for deductible temporary differences arising from investments in subsidiaries. In such cases, the deferred tax assets are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities should be 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.

Under USGAAP, deferred tax assets and liabilities are recognised except for certain exemptions including the difference between the book value and the tax basis of an investment in a foreign subsidiary or foreign corporate joint venture, unless it becomes apparent that this difference will reverse in the foreseeable future. In addition, a valuation allowance with respect to deferred tax assets is recognised to reduce the total deferred tax assets to an amount which is more likely than not to be realised. Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Group has assessed the differences related to the accounting for deferred income taxes under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(m)

Provision for restructuring costs

Under HKFRSs, a provision for restructuring costs should be accrued for at the date of a company s commitment to an exit plan, generally when a company has a constructive obligation. A constructive obligation to restructure arises only (a) when a company has a detailed formal plan that must identify the business or part of a business concerned, location, function, and approximate number of employees who will receive termination compensation, the expenditures that will be undertaken and when the paln will be implemented; and (b) a company has raised a valid expectation in other parties such as customers, suppliers and employees that the restructuring will take place by starting to implement the plan or announcing the main features to those affected.

Under USGAAP, restructuring costs should be accrued only when the company has a legal or contractual obligation. Each cost of an exit plan is examined individually to determine when it is incurred. The restructuring costs would be recognised immediately when employees are terminated within the minimum service period. Otherwise, the costs would be recognised over the future services period.

The Group has assessed the differences related to the accounting for provision for restructuring costs under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the

shareholders equity of the Group as at 31 December 2006 to be immaterial.

(n)

Warranty expenses

Under HKFRSs, there is no specific guidance for the classification of warranty expenses in the income statement.

Under USGAAP, warranty expenses should be classified as cost of sales in the income statement.

The above difference between HKFRSs and USGAAP only resulted in a difference in the classification of warranty expenses in the Group s income statement and had had no impact on the Group s loss for the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006.

(o)

Classification of liabilities

Under HKFRSs, a long-term loan that is payable on demand following a breach of an undertaking is classified as a current liability even if the lender has agreed, after the balance sheet date but before the financial statements are issued, not to demand payment.

Under USGAAP, the loan would be classified as non-current if, before the financial statements are issued, the lender has waived the right to demand repayment for more than one year from the balance sheet date.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(o)

Classification of liabilities (continued)

The above difference between HKFRSs and USGAAP only resulted in a difference in the classification of liabilities in the Group s balance sheet and had had no impact on the Group s loss for the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006.

(p)

Other comprehensive income

Under HKFRSs, there is no specific guidance for recognising and presenting other comprehensive income. Items of gain and loss that are not recognised in the income statement (such as a foreign exchange translation gain or loss) are recognised in reserves separate from retained profits and are disclosed in the statement of changes in equity.

USGAAP establishes standards for the reporting and display of comprehensive income and its components in financial statements that are displayed with the same prominence as other financial statements. Comprehensive income is composed of two subsets: net income and other comprehensive income . Comprehensive income includes charges or credits to equity that are not the result of transactions with owners and consists of the following:

- net income;
- unrealised holding gains and losses on available-for-sale securities;
- foreign currency translation adjustments;
- the minimum pension liability in excess of unrecognised prior service costs;
- gains and losses on foreign currency transactions designated as, and effective as, economic hedges of a net investment in a foreign entity;
- gains and losses from derivatives that qualify as cash flow hedges; and
- change in the fair value of a futures contract that qualifies as a hedge of an asset, prior to the adoption of SFAS No. 133.

The Group has assessed differences related to the accounting for other comprehensive income under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(q)

Changes in accounting estimates and errors

Under HKFRSs, changes in accounting policies are to be accounted for retrospectively by adjusting the opening balance of retained earnings and restating comparative information. Moreover, an entity shall account for a change in accounting policy resulting from the initial application of a standard or an interpretation in accordance with the specific transitional provisions, if any, in that standard or interpretation; and when an entity changes an accounting policy upon initial application of a standard or an interpretation that does not include specific transitional provisions applying to that change, or changes in accounting policies voluntarily, it shall apply the change retrospectively.

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52.

SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

(q)

Changes in accounting estimates and errors (continued)

USGAAP currently requires changes in accounting policies to be recognised by means of a cumulative catch-up adjustment in the income statement for the current period. Although prior period statements are not restated, the income before extraordinary items and net income computed on a pro forma retroactive basis should be shown on the face of the income statement for all periods presented. In a limited number of circumstances, retroactive restatement of financial statements for all prior periods presented is required by specific accounting pronouncements.

The Group has assessed the differences related to the accounting for changes in accounting estimates and errors under HKFRSs and USGAAP and has determined the impact on the Group s loss of the year ended 31 December 2006 and the shareholders equity of the Group as at 31 December 2006 to be immaterial.

(r)

Minority interests

Under HKFRSs, minority interests were part of the total results for the year and total equity of the group, whereas under USGAAP, minority interests are excluded from the total results for the year and shareholders equity of the Group.

(s)

Discontinued operations

Under HKFRSs, a discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. A component of any entity comprises operations and cash flows that can be clearly distinguished from the rest of the entity, both operationally and for financial reporting purposes (i.e. it will have been a cash-generating unit or a group of such units while being held for use).

Under USGAAP, the results of operations of a component of an entity that either has been disposed of or is classified as held for sale shall be reported in discontinued operations if both of the following are met: (i) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (ii) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.. Component of an entity comprises operations and cash flows that can be clearly distinguished from the remainder of the entity, both operationally and for financial reporting purposes. A component of an entity may be an operating segment, a reporting unit, a subsidiary, or an asset group.