

THOMSON  
Form 20-F/A  
June 21, 2006

As filed with the Securities and Exchange Commission on June 21, 2006

**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, 2005

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**

*(Translation of Registrant's name into English)*

**46, quai Alphonse Le Gallo  
92100 Boulogne-Billancourt - France**  
*(Address of principal executive offices)*

**Republic of France**

*(Jurisdiction of incorporation or organization)*

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

**Title of each class:**

Common Stock, nominal value 3.75 per share,  
and American Depositary Shares,  
each representing one share of Common Stock

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

**None**

**Name of each exchange  
on which registered:**

New York Stock Exchange

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

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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: 273,308,032**

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, 2005, which was originally filed with the U.S. Securities and Exchange Commission on May 12, 2006 (the Original Filing ), is being filed to provide separate audited consolidated financial statements of TCL Multimedia Technology Holdings Limited ( TCL ) as of and for the fiscal year ended December 31, 2005, and the audit report of Ernst & Young relating thereto as required pursuant to Rule 3-09 of Regulation S-X. This Amendment also includes comparative information on TCL as of and for the fiscal year ended December 31, 2004, which is not required to be audited under Rule 3-09 of Regulation S-X. Accordingly, the comparative information on TCL as of and for the fiscal year ended December 31, 2004 included herein has not been audited in accordance with generally accepted auditing standards in the 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 audited consolidated financial statements of TCL as of and for the fiscal year ended December 31, 2005, as well as the comparative information of TCL as of and for the year ended December 31, 2004, included in this Amendment have been prepared by and are the responsibility of TCL and its management. These financials 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. Accordingly, Thomson and its management assume no responsibility relating thereto.

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, 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 12, 2006, 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 report of the Independent Auditors, are filed as part of this Amendment No.1 to this Annual Report:

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The following consolidated financial statements of TCL as of and for the years ended December 31, 2005 and December 31, 2004 (unaudited)<sup>1</sup>, 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, 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 generally accepted auditing standards in the United States, and is not covered by the audit report of Ernst & Young.

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ITEM 19 - EXHIBITS

The following exhibits are filed as part of this Amendment No.1 to Annual Report:

- Exhibit 1: Bylaws of Thomson (Incorporated by reference to Exhibit 4.1 to the Company's Form S-8 filed on April 22, 2005)
- Exhibit 4: Combination Agreement among TCL, TCL international Holdings Limited and Thomson S.A., dated as of January 28, 2004 (Incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2003)
- 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 Barbier Frinault & Autres (Ernst and Young) and of Mazars & Guérard in connection with our consolidated financial statements
- Exhibit 14.2: Consent of Ernst & Young in connection with the consolidated financial statements of TCL Multimedia Technology Holdings Limited
- Exhibit 99.1: Excerpts of Thomson's report on Form 6-K submitted to the SEC on April 20, 2006

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**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

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Frank E. Dangeard  
Chairman and Chief Executive Officer

Dated: June 21, 2006

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Thomson Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firms

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 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 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.

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.

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

BARBIER FRINAULT & AUTRES

MAZARS & GUERARD

Ernst & Young

Mazars

Jérôme Guirauden

Thierry de Bailliencourt Frédéric Allilaire

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## Consolidated Statements of Operations

	Note	Year ended	
		December 31, 2005	December 31, 2004
(in millions)			
<b>Continuing operations:</b>			
<b>Revenues</b>		<b>5,691</b>	<b>6,036</b>
Cost of sales		(4,322)	(4,634)
<b>Gross margin</b>		<b>1,369</b>	<b>1,402</b>
Selling, general, administrative expenses and others	(7)	(753)	(732)
Research and development expense	(8)	(234)	(204)
<b>Profit from continuing operations before tax and financial result</b>		<b>382</b>	<b>466</b>
Interest expense		(78)	(2)
Other financial income (expense)		24	(27)
<b>Financial result</b>	(9)	<b>(54)</b>	<b>(29)</b>
Share of profit (loss) from associates	(14)	(82)	(20)
Income tax	(10)	(70)	(93)
<b>Profit (loss) from continuing operations</b>		<b>176</b>	<b>324</b>
<b>Discontinued operations:</b>			
<b>Profit (loss) from discontinued operations</b>	(11)	<b>(749)</b>	<b>(885)</b>
<b>Net income (loss)</b>		<b>(573)</b>	<b>(561)</b>
Attributable to			
Equity Holders		(574)	(559)
Minority interests		1	(2)

	Note	Year ended	
		December 31, 2005	December 31, 2004
(in euro, except number of shares)			
Weighted average number of shares outstanding – basic net of treasury stock <sup>(*)</sup>		266,539,917	273,646,869
<sup>(*)</sup> The decrease as of December 2005 is due to the treasury shares acquired in 2005.			
<b>Earnings per share from continuing operations attributable to the equity holders of the Group</b>	(31)		
- basic		0.64	1.18
- diluted		0.33	1.11
<b>Earnings per share from discontinued operations attributable to the equity holders of the Group</b>			
- basic		(2.81)	(3.23)
- diluted		(2.81)	(3.23)
<b>Total earnings per share attributable to the equity holders of the Group</b>			
- basic		(2.17)	(2.05)

- diluted

(2.48 ) (2.12 )

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## Consolidated Balance Sheets

	Note	December 31, 2005	January 1, 2005 (1)	December 31, 2004
(in millions)				
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	(12 )	886	1,051	1,051
Goodwill	(13 )	1,756	1,186	1,178
Intangible assets	(13 )	1,150	924	924
Investments in associates	(14 )	204	260	260
Investments and financial assets available-for-sale	(16 )	341	139	113
Derivative financial instruments	(23 )	1	11	
Contract advances	(17 )	173	179	179
Deferred tax assets	(10 )	379	307	301
Other non-current assets		182	133	136
<b>Total non-current assets</b>		<b>5,072</b>	<b>4,190</b>	<b>4,142</b>
<b>Current assets:</b>				
Inventories	(18 )	333	503	568
Trade accounts and notes receivable	(19 )	1,315	1,232	1,180
Current accounts with affiliated companies		115	143	143
Derivative financial instruments	(23 )	9	115	
Other current assets	(20 )	644	483	616
Marketable securities		7	58	58
Cash and cash equivalents	(21 )	996	1,845	1,848
<b>Total current assets</b>		<b>3,419</b>	<b>4,379</b>	<b>4,413</b>
<b>Assets classified as held for sale</b>	(11 )	<b>369</b>	<b>80</b>	
<b>Total assets</b>		<b>8,860</b>	<b>8,649</b>	<b>8,555</b>

(1) Including the first-time application impacts related to IAS 32 and 39 on financial instruments and IFRS 5 on Non-current assets held for sale and discontinued operations.

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## Consolidated Balance Sheets

	Note	December 31, 2005	January 1, 2005 (1)	December 31, 2004
(in millions)				
<b>LIABILITIES, SHAREHOLDERS EQUITY AND MINORITY INTERESTS</b>				
<b>Shareholders equity:</b>	(22	)		
Common stock (273,308,032 shares, nominal value 3.75 per share at December 31, 2005 and December 31, 2004)		1,025	1,025	1,025
Treasury shares		(239	) (55	) (55
Additional paid in capital		1,771	1,751	1,751
Subordinated perpetual notes		492		
Other reserves		43	89	(23
Retained earnings		(972	) (323	) (125
Cumulative translation adjustment		89	(98	) (98
<b>Shareholders equity</b>		<b>2,209</b>	<b>2,389</b>	<b>2,475</b>
Minority interests		7	9	18
<b>Total equity</b>		<b>2,216</b>	<b>2,398</b>	<b>2,493</b>
<b>Non-current liabilities:</b>				
Borrowings	(24	) 858	1,540	1,597
Reserve for post-employment benefits	(26	) 877	760	785
Restructuring provisions	(27	) 9		
Derivative financial instruments	(23	) 57	122	
Other provisions	(27	) 185	55	55
Deferred tax liabilities	(10	) 162	43	37
Other non-current liabilities	(29	) 103	129	129
<b>Total non-current liabilities</b>		<b>2,251</b>	<b>2,649</b>	<b>2,603</b>
<b>Current liabilities :</b>				
Borrowings	(24	) 1,464	1,011	904
Derivative financial instruments	(23	) 10	34	
Reserve for post-employment benefits	(26	) 62	65	65
Restructuring provisions	(27	) 45	76	76
Other provisions	(27	) 77	81	81
Trade accounts and notes payable		1,164	1,199	1,226
Accrued employee expenses		166	158	163
Income tax payable	(10	) 47	60	60
Other current liabilities	(29	) 750	746	800
Payables on acquisition of companies	(30	) 138	84	84
<b>Total current liabilities</b>		<b>3,923</b>	<b>3,514</b>	<b>3,459</b>
	(11	) 470	88	

**Liabilities directly associated with assets classified as held for sale**

	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total liabilities, shareholders equity and minority interests</b>	<b>8,860</b>	<b>8,649</b>	<b>8,555</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
- Off-balance sheet commitments	(34 )		
- Contingencies	(35 )		

(1) *Including the first-time application impacts related to IAS 32 and 39 on financial instruments and IFRS 5 on Non-current assets held for sale and discontinued operations.*

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## Consolidated Statements of Cash Flows

	Note	Year ended December 31,	
		2005	2004
		(in millions)	
<b>Net Income</b>		<b>(573)</b>	<b>(561)</b>
<b>Profit (Loss) from discontinued operations</b>		<b>(749)</b>	<b>(885)</b>
<b>Profit (Loss) from continuing operations</b>		<b>176</b>	<b>324</b>
<i>Summary Adjustments to reconcile profit from continuing operations to cash generated from operations</i>			
Depreciation and Amortization		442	399
Write-off of assets		29	51
Net changes in provisions, risks and charges		(11)	(39)
Profit / (loss) on asset sales			(50)
Interest Income and Expense		78	2
Other including Tax		68	95
Changes in Working Capital and other assets and liabilities		(42)	(82)
<b>Cash generated from continuing operations</b>		<b>740</b>	<b>700</b>
Interest paid		(64)	(35)
Interest received		14	10
Income tax paid		(67)	(120)
<b>Net operating cash generated from continuing activities</b>		<b>623</b>	<b>555</b>
Net operating cash used in discontinued operations <sup>(1)</sup>		(323)	(125)
<b>Net cash provided by operating activities (I)</b>		<b>300</b>	<b>430</b>
Acquisition of subsidiaries, associates and investments, net of cash acquired	(33)	(470)	(586)
Acquisition of Videocon Industries shares	(33)	(240)	
Net proceeds from sale of investments		4	42
Proceeds from sale (purchases) of marketable securities		52	(58)
Purchases of property, plant and equipment (PPE)		(192)	(219)
Proceeds from sale of PPE		10	13
Purchases of intangible assets including capitalization of R&D costs		(102)	(67)
Loans (granted to)/reimbursed by third parties		48	17
<b>Net investing cash used in continuing activities</b>		<b>(890)</b>	<b>(858)</b>
Net investing cash used in discontinued operations <sup>(1)</sup>		(6)	(131)
<b>Net cash used in investing activities (II)</b>		<b>(896)</b>	<b>(989)</b>
Proceeds from issuance of deeply subordinated notes		492	
Purchase of treasury shares and others <sup>(2)</sup>		(283)	(58)
Proceeds from issuance of convertible bonds			403
Repayments of convertible bonds		(588)	
Proceeds from borrowings		600	272
Repayments of borrowings		(427)	(540)
Dividends paid to Group shareholders		(77)	(71)
Dividends paid to minority interests		(2)	(3)
<b>Net financing cash generated from continuing activities</b>		<b>(285)</b>	<b>3</b>
Net financing cash used in discontinued operations <sup>(3)</sup>		12	2



<b>Net cash (used)/provided by financing activities (III)</b>	<b>(273 )</b>	<b>5</b>
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents (I+II+III)</b>	<b>(869 )</b>	<b>(554 )</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,848</b>	<b>2,383</b>
Exchange gains/(losses) on cash and cash equivalents	17	19
<b>Cash and cash equivalents at end of year</b>	<b>996</b>	<b>1,848</b>
	<hr/>	<hr/>

(1) *The 2005 cash outflow related to discontinued operations amounts to (317) million (of which (323) million from operating activities) and is net of cash received for the sale of Thomson's assets to Videocon for a consideration of 223 million which has been immediately reinvested into Videocon Industries shares for an amount of 240 million.*

(2) *Including a valued added tax reimbursement on capital increase fees for 9 million in 2005.*

(3) *This amount is net of financing provided by the parent company for repayment of financial debts prior to disposal.*

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## Consolidated Statement of Recognised Income and Expense

	Period ended	
	December 31, 2005	December 31, 2004
	<b>(in millions)</b>	
<b>Profit /(loss) for the year</b>	<b>(573</b>	<b>) (561</b>
Recognition of actuarial gains and losses in equity	(58	) (23
Fair value gains (losses), gross of tax		
- on available-for-sale financial assets	(24	)
- on cash flow hedges	(11	)
Currency translation adjustments	190	(97
Tax effect <sup>(*)</sup>		)
<b>Total income and expense recognized directly in equity</b>	<b>97</b>	<b>(120</b>
<b>Total recognized income and expense for the year</b>	<b>(476</b>	<b>) (681</b>
<i>Attributable to</i>		
- <i>Equity holders of the parent</i>	(480	) (680
- <i>Minority interests</i>	4	(1
		)

<sup>(\*)</sup> No tax effect due to deferred tax loss situation.

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## Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Group								
	Share capital	Treasury shares	Additional Paid in capital	Bonds issued	Other reserves	Retained earnings	Cumulative translation adjustments	Minority interests	Total equity
<i>(in millions)</i>									
<b>Balance at December 31, 2003</b>	<b>1,052</b>	<b>(210)</b>	<b>1,938</b>			<b>500</b>		<b>9</b>	<b>3,289</b>
<b>Variations 2004</b>									
<i>Total income and expense recognized in equity</i> (*)					(23)		(98)	1	(120)
<i>Net income (loss) 2004</i>						(559)		(2)	(561)
<b>Total recognized income and expense 2004</b>					<b>(23)</b>	<b>(559)</b>	<b>(98)</b>	<b>(1)</b>	<b>(681)</b>
Dividends						(71)		(5)	(76)
Warrants (1)			12						12
Treasury shares									
- purchased (4,157,010 shares)		(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
Share based payment to employees			3						3
Change in perimeter								15	15
<b>Balance at December 31, 2004</b>	<b>1,025</b>	<b>(55)</b>	<b>1,751</b>		<b>(23)</b>	<b>(125)</b>	<b>(98)</b>	<b>18</b>	<b>2,493</b>
Adoption of IAS 32 and 39					112	(198)		(9)	(95)
<b>Balance at January 1, 2005</b>	<b>1,025</b>	<b>(55)</b>	<b>1,751</b>		<b>89</b>	<b>(323)</b>	<b>(98)</b>	<b>9</b>	<b>2,398</b>
<b>Variations 2005</b>									
<i>Total income and expense recognized in equity</i> (*)					(93)		187	3	97
<i>Net income (loss) 2005</i>						(574)		1	(573)
<b>Total recognized income and expense 2005</b>					<b>(93)</b>	<b>(574)</b>	<b>187</b>	<b>4</b>	<b>(476)</b>
Dividends						(77)		(2)	(79)
Issuance of deeply subordinated bonds net of transaction costs (Note 22 (c))				492					492
Treasury shares									
- purchased (15,626,318 shares)		(292)							(292)
- sold (2,352,544 shares)		49							49
Fair Value treasury shares to deliver (5)		59							59
Carry back on treasury shares					10				10
Change in perimeter (6)								9	9

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Put on shares to minority interests (6)								(13)	(13)	)
Other (4)		9							9	
Fair value written put cancellation (7)						37				37
Unrecognized gain on put sold (7)							2			2
Share based payment to employees (Note 28)			11							11
<b>Balance at December 31, 2005</b>	<b>1,025</b>	<b>(239)</b>	<b>) 1,771</b>	<b>492</b>	<b>43</b>	<b>(972)</b>	<b>) 89</b>	<b>7</b>	<b>2,216</b>	

(\*) See details in the Statement of recognized income and expense on previous page.

- (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 that filled certain conditions. As of December 31, 2004, a number of 12,471,369 BASA at 1 each were subscribed. Each BASA give 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. As per first time adoption of IAS 32 and 39, this commitment was reclassified under financial debt long term and was reevaluated by 3 million, making the underlying long-term debt as of January 1, 2005 equaling 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 (Note 22).
- (6) The variations mainly relate to the acquisition of VCF Thematiques on the year that increase first the minority interest and then a reclassification of the minority interests in borrowings as a put on these minority interests exist.
- (7) See Note 38.5(i) § iv, as the put has not been exercised the debt and the gain on the premium have been cancelled through equity.

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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 entertainment and media industries. Since January 1, 2005, Thomson's activities have been organized into three principal activities: Services, Systems & Equipments and Technology, plus two further activities regrouping Corporate Functions and its remaining continuing but non-core activities: Displays and Consumer Electronics Partnerships.

In these financial statements, the terms Thomson group (formerly the Thomson multimedia group), the Group and Thomson mean Thomson S.A. together with its consolidated subsidiaries. Thomson S.A. refers to the Thomson group parent company (formerly Thomson multimedia S.A.).

The financial statements have been approved by the Board of Directors of Thomson S.A. and authorized for issue on February 21, 2006.

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 on May 12, 2006.

## **2 Summary of significant accounting policies**

### **Basis of preparation**

The consolidated financial statements have been prepared in accordance with all effective International Financial Reporting Standards (IFRS) and are covered by IFRS 1 *First Time Adoption of IFRS*, because they are part of the year covered by Thomson's first IFRS financial statements for the year 2005. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations effective as of December 31, 2005 and approved by the European Union as of February 21, 2006.

### **Comparison between 2004 and 2005 adoption of standards as of January 1, 2005**

The policies set out below have been consistently applied to all the periods presented except for the three following standards for which Thomson has made use of the exemption available under IFRS 1 to only apply these standards from January 1, 2005:

IAS 32 and 39 relating to the classification and measurement of financial instruments. The application of these standards prospectively from January 1, 2005 does not allow a full

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consistent comparison between 2005 and 2004 net income. The main impacts of the application of these standards are described in Note 38;

IFRS 5 *Non-current assets held for sale and discontinued operations* . However, the 2004 statement of operations has been restated in accordance with IFRS 5 to present on a single line item the net 2004 result of the 2005 discontinued activities.

#### **Early adoption of standards**

The Group has applied the following amendments of standards issued by the IASB in 2004/2005 and effective as from January 1, 2006 and approved by the EU as of December 31, 2005 and for which an earlier application was permitted:

revised IAS 19 which allows actuarial gains or losses of each year to be booked to equity (which was applied as of January 1, 2004); and

revised IAS 39 which authorizes intra-group cash flow hedge under certain conditions. This amendment has been applied as from January 1, 2005, date of application of IAS 32 and 39.

As approved by the EU Commission in the Accounting Regulatory Committee in November 2005, any endorsement made by the European Union and published in the Official Journal before the issuance of the financial statements (before the date the financial statements are signed) may be adopted by the company if early application is permitted. Consequently, the Group has elected to apply earlier IFRIC 6 *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (WEEE)* as the European Directive on WEEE applied since 2005 in most European countries where the Group operates.

#### **Standards and interpretations issued, not effective and not applied earlier by Thomson**

The following IFRS standards or IFRIC interpretations were issued in previous years but they will be effective at a later date and have not been applied earlier:

IFRS 7 *Financial instruments: disclosures* issued by the IASB in August 2005 and endorsed by the European Union in January 2006. IFRS 7 supersedes the disclosure requirements of IAS 32 *Financial Instruments: Presentation and Disclosure* ; an amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures* was issued in 2005 and is effective for annual periods beginning on or after January 1, 2007. This amendment introduces new requirements for disclosures about an entity's capital. The Group plans to adopt this amendment at its effective date. Its impact is expected at this stage to be limited to disclosures to the financial statements;

IFRIC 4 *Determining whether an arrangement contains a lease* was issued in 2004 and is effective for annual periods beginning on or after January 1, 2006. IFRIC 4 gives guidance on determining whether arrangements that do not take the legal form of a lease (e.g. some take-or-pay contracts) should, nonetheless, be accounted for in accordance with IAS 17 *Leases* . It specifies that an arrangement contains a lease if it depends on the use of a specific asset and conveys a right to control the use of that asset. The Group plans to adopt this standard at its effective date and is currently assessing the impact of this new standard on the Group's operations;

IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds* was issued in December 2004 and is effective for annual periods beginning on or after January 1, 2006. The Group plans to adopt this standard at its effective date and does not anticipate any significant impact on its financial statements;

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an amendment to IAS 39 regarding the use of the fair value option issued in 2005 is effective for annual periods beginning on or after January 1, 2006.

The impacts of current IFRS and IFRIC projects are not anticipated in these financial statements.

All figures are presented in millions of euro unless otherwise stated.

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. The actual results could significantly differ from these estimates depending on different conditions and assumptions.

#### **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:

- *Business combinations*

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

- *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.

- *Cumulative actuarial gains and losses on pensions and other post-employment benefit plans*

According to IFRS 1, 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

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future accounting of the actuarial gains and losses on employee benefits.

- *Measurement of certain items of 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 in July 2004. It had a negative impact of 17 million on the opening net equity, which corresponds to the difference between the 128 million of assets carrying value and 111 million fair value.

- *Stock options and other share-based payments*

According to IFRS 1, 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.

The following options and exemptions provided by IFRS 1 have not been applied by the Group or are not relevant for Thomson's activities:

- *Compound financial instruments option, designation of previously recognised financial instruments option and fair value measurement of financial assets or financial liabilities option*

Thomson has not used these exemptions provided by IFRS 1 as the Group applies IAS 32 and 39 from January 1, 2005.

- *Assets and liabilities of subsidiaries option and changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment option*

Thomson has not applied these options because they were not relevant for Thomson's activities.

**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:

- *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, without any 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.

- *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.



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## **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) and when no other shareholder holds a significant right allowing veto or the blocking of ordinary 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.

Financial statements of consolidated subsidiaries, when prepared in accordance with the generally accepted accounting principles in their country of origin, have been adjusted to IFRS accordingly in consolidation.

### **(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 policy 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 accounted for under the proportionate consolidation 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 and liabilities that meet the IFRS recognition criteria are recorded at their fair values 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.

Only the identifiable liabilities satisfying the recognition criteria of a liability or a contingent liability for the acquired company are recorded at the acquisition date when allocating the cost of the business combination. Thus, a restructuring liability is recognized as part of allocating the cost of the combination only if the acquired company has, at the acquisition date, an existing liability for restructuring.

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 costs directly attributable to a business combination include costs such as professional fees paid to accountants, legal advisers, valuers and other consultants which help to effect the business combination.

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 directly recognized into net result unless they correspond to corrections of errors.

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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**

The financial statements of affiliates for which the functional currency is different from that of the parent company are translated as follows:

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 period end;

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 of each foreign currency converted to euros) are summarized in the following table:

	2005		2004	
	Closing rate	Average rate	Closing rate	Average rate
US dollar (USD)	0.84331	0.80550	0.73303	0.80173
Pound sterling (GBP)	1.45590	1.46248	1.41365	1.47262
Canadian dollar	0.72546	0.66470	0.60938	0.61882
Hong Kong dollar	0.10877	0.10359	0.09429	0.10294
Polish zloty	0.25917	0.24829	0.24537	0.22155
China Renminbi	0.10453	0.09844	0.08857	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 accounting for 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



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straight-line method over the shorter of the estimated useful life of the asset and the duration of the lease. The amortization costs related to the assets acquired through these contracts are included within the amortization allowances in profit and loss.

### **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 affiliate 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 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, general, administrative expenses and others or research and development expense.

#### **(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.

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, using either a straight-line method or a unit of production 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.



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**(c) Customer relationships**

Customer relationships are acquired through business combinations and 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 recoverable amount of an asset is individually assessed, unless the asset does not generate any cash inflows independent of those from other assets or groups of assets. In this case, as for goodwill, the Group determines the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

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 Group directors. 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.

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.

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 the profit from continuing operations (before tax and financial result), 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 from January 1, 2005 prospectively.





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### **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.

### **Discontinued Operations**

A discontinued operation is a component of an entity that either has been disposed of (by sale or otherwise) or is held for sale. To be disclosed as discontinuing, the operation must have been discontinued or be 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 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 11. 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. In the statement of cash flows, the amounts related to businesses in discontinued operations are disclosed separately.

### **Inventories**

Inventories are valued at cost 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 administration 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 division, 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, net and are amortized as a reduction of net sales 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.

In accordance with IAS 39, 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.



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

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. In the case of equity securities classified as

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available-for-sale, 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 equity instruments are not reversed through the income statement.

**Financial liabilities—hybrid/compound instruments**

**(a) Compound instruments/convertible bonds**

A compound instrument is a financial instrument that contains both a 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 debts 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 the issue of 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 US 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 options will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments). In September 2005, this decision was confirmed by the IASB which refused to amend IAS 32 to modify the treatment of convertible bonds 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. 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 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



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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

### 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:

- fair value hedge, corresponding to a hedge of the exposure to the change in fair value of an asset or a liability;
- cash flow hedge, corresponding to a hedge of the exposure to the variability in cash flows from future assets or liabilities;
- 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:

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

- for fair value hedges of existing assets and liabilities, 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;
- 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 included in the income statement when the foreign operation is disposed of.

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

### 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

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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 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 Financial result .

This caption includes some classes of investment funds which are subject to risks of change in value that cannot 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 costs directly attributable to the equity transaction are accounted for as a deduction from equity.

#### **Deferred taxes**

Deferred taxes result from:

- temporary differences arising from differences between the tax bases of assets and liabilities and their carrying amounts in the 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.



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All deferred tax liabilities are recorded except:

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 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:

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;

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.

## 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.

These assets are amortized over the shorter of their useful life and the lease term.

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.

## Post employment 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.



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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 as financial expense and financial income.

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 service received from the employees for the grant of the stock options consists of an additional compensation to the employee.

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.

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 effect of the time value of money 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 and the risks specific to the liabilities.



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Increases in provisions resulting from the discounting and recorded to reflect the passage of time are recognized as financial costs in the income statement.

**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:

the existence of a detailed and finalized plan identifying the sites concerned, their 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 the announcement of this plan to those affected by it.

The restructuring provision only includes the expenses directly linked to the plan and which do not relate to the Group's continuing activities.

**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 contract advances.

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 & Equipment operations ( Grass Valley ) consist 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 recognised in accordance with the percentage of completion method and probable losses on contracts in progress are fully recognised as soon as they are identified.

**(e) Sales incentives**

Sales incentives to customers under sales incentives programs are deducted from sales unless the following conditions are met:

Thomson receives an identifiable and separable benefit (goods or services) in exchange for the cash paid to the customer;

and Thomson can reasonably estimate the fair value of the benefit.  
Amounts paid in excess of such identified benefit are deducted from sales.

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### **Earnings per share**

Basic 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.

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 written call 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 exchange rate, interest rate and price fluctuations, 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 company's exposures to these risks with details of the transactions undertaken to reduce these risks.

To reduce interest rate and currency exchange rate 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 division based on policies that take into account the credit quality and history of customers.

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, principally US 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 consolidated financial statements.





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## **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 the full amount of the estimated exposure, thereby eliminating the currency risk for the period of the hedge. The corporate treasury 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.

## **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. Also, different assumptions or conditions would yield different results. Thomson's management believes the followings are 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. Such periods range from twenty to forty years for buildings, from one to twelve years for plants and equipment and from four to ten years for other tangible assets, excluding land that has an indefinite useful life. Development projects

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are capitalized and amortized over their economic useful lives, which usually do not exceed five years.

For the year ended December 31, 2005, the Group recognised depreciation expense amounting to 208 million related to tangible fixed assets and amortization expense of 125 million for intangible assets with finite useful lives (these figures include depreciation expense booked in the loss from discontinued operations). As of December 31, 2005, the net carrying amount of PPE and intangible assets with finite useful lives amounted to 886 million and 1,150 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 of its assets are described in Note 13 to our consolidated financial statements and are based on actual historical experience and external data. In estimating the future revenues growth rates, operating margin rates and operational cash flow generated by a particular asset, the Group used its internal budget for each reporting unit, which is updated every six months and which models cash flows for the next five-year period.

As of December 31, 2005 the net book value of goodwill and indefinite-lived intangible assets amounted to 1,756 million and 257 million, respectively.

Thomson performed an annual impairment test in 2005, 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



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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, 2005, the Group has recorded a 162 million deferred tax liability and 379 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 26 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 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, 2005 the post-employment benefits liability amounted to 939 million, while the present value of the obligation amounted to 1,112 million and the fair value of plan assets amounted to 183 million. For the year ended December 31, 2005, the Group recognized 52 million of expenses related to such liability.

#### **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 this capital gain 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 given up, the Group's management has used certain valuation techniques for which assumptions retained have impacted the fair value of the business given up 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.

#### **Impairment test of the equity investment in TCL Multimedia**

The Group reviews for impairment an investment in associate when a triggering event occurs during a period. The criteria used to determine whether there is a triggering event is based on the fair value of the investment, when available, compared to its carrying amount. Then in the case management estimates a triggering event occurred, management needs to assess the recoverable amount of the related investment. As defined under IFRS, the recoverable amount is the higher of (i) the fair value and (ii) the value in use.

As a consequence, Thomson's management is required to (i) estimate whether a triggering event occurred during the period under review and (ii) assess the recoverable amount of the investment, when required. Management has therefore



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to make significant judgment when assessing the recoverable amount of its investment accounted for using the equity method in TCL Multimedia.

As of December 31, 2005, Thomson's management determined that a triggering event occurred because the market value of its investment in TCL Multimedia 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. In order to assess the present value of related cash flows, Thomson used a 9.2% discount rate and a perpetual growth rate of 2.3%.

As a result of the impairment test, Thomson recognized a 63 million impairment for the period ended December 31, 2005 on the carrying amount of its investment in TCL Multimedia (net book value as of December 31, 2005 of 193 million).

#### **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. Refer to Note 35 for a description of the significant litigation.

#### **Measurement of conversion option embedded in certain convertible debt**

On September 16, 2004, Thomson issued certain subordinated bonds that are (1) redeemable in US 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 Deposit 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 share closing prices and the exchange rate as of 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. Subsequent change in fair value required Thomson to recognize a net non cash financial gain amounting to 83 million in 2005 (comprising a gain of 94 million and a loss of 11 million on currency translation adjustments) and a loss amounting to 84 million in 2004. 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.

[Back to Index](#)**5 Significant changes in the scope of consolidation**

For the years ended December 31, 2005 and December 31, 2004, Thomson's consolidated balance sheets and statements of operations include the accounts of companies 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,							
	2005				2004			
	Europe (except France)	France	US	Others	Europe (except France)	France	US	Others
<b>Number of companies:</b>								
Parent company and consolidated subsidiaries	78	40	27	63	69	37	27	60
Companies consolidated under the proportionate method	15	5	11	1	17	5	10	1
Companies accounted for under the equity method		3	2	2	1	3	2	3
<b>Sub-total</b>	<b>93</b>	<b>48</b>	<b>40</b>	<b>66</b>	<b>87</b>	<b>45</b>	<b>39</b>	<b>64</b>
<b>Total</b>	<b>247</b>				<b>235</b>			

**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 acquisition has been accounted for using the purchase method. This company is fully consolidated from that date.

On March 14, 2005, Thomson acquired 33% control over ContentGuard Holdings, Inc., for an amount of USD 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:

81 million paid in cash at closing date,

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

2,351,648 shares delivered at closing date ( 49 million),

712,498 shares to be delivered in different instalments from 2006 to 2008 and subject to certain price adjustments ( 14 million),





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87,074 shares to be delivered on June 30, 2006 and 2007 depending on earn-out conditions ( 2 million).

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.

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:

- 40 million paid in cash at closing date,
- 42 million to be paid in Thomson shares as follows:

1,050,878 shares to be 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.

The remainder of the 16% will be purchased at a later date and at the latest on June 30, 2006 at a price depending on the evolution of the results of the company in 2005. The purchase price will be also increased by the issuance of specific warrant (*Bons de Créateur d'Entreprise/BCE*).

The total cost of the planned purchase is expected to amount to 9 million.

This acquisition follows a first instep by Thomson made in 2004 with the acquisition of 10% of the capital.

The company is fully consolidated from June 17, 2005 and the amount due to minority shareholders is recorded as a debt and the counterpart is a decrease in minority interests and an increase in goodwill.

On August 26, 2005, Thomson announced the acquisition of 100% of the American company Premier Retail Network Corporation, 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 USD 299 million paid in cash, including a normalized level of working capital. Premier Retail Network will be part of Thomson's Network Operations Services business unit in the Services Division.

The company is fully consolidated from August 26, 2005.

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.

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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.

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The company will be part of Thomson's Network Operations Services business unit in the Services Division. The company is fully consolidated from October 27, 2005 and the optional amount due to the minority shareholder is recorded as a debt at an estimated amount of approximately 16 million.

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 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.

Due to the complexity of the business acquired, the identification and evaluation of the intangible assets require experts appraisal, which prevents the Group from providing finalized purchase price allocation 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 acquisitions, and so is not yet finalized.

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

	<b>Acquirees carrying amount before combination</b>	<b>Fair value adjustments</b>	<b>Fair value (provisional)</b>
	<b>(in millions)</b>		
<b>Net assets acquired</b>			
Property, plant and equipment	27		27
Intangible assets	4	129	133
Inventories	46	5	51
Trade receivables	110	2	112
Other assets	21	(5	) 16
Bank and cash balances	61	1	62
Provisions	(24	)	(24
Trade payables	(89	) 3	(86
Other liabilities	(79	) 20	(59
Deferred tax liabilities	(50	) (50	)
	<b>77</b>	<b>105</b>	<b>182</b>
<b>Purchase consideration</b>			
Cost of acquisition			627
Direct costs relating to the acquisitions			7
			<b>634</b>
<b>Goodwill</b>			
(provisional amount as of December 31, 2005)			<b>452</b>

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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:

	<b>Year ended December 31, 2005</b>
	<b>(in millions)</b>
Contribution in revenue	222
Contribution in profit from continuing operations before tax and finance costs	15

In 2005 up until their related acquisition dates, these acquisitions had revenue of 299 million and a loss from continuing operations before tax and 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.

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 consumer electronics components. This investment was effected in the form of Global Depositary Receipt 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 is a consolidated loss totalling 97 million (Refer to Note 11).

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 2005 consolidated financial statements. The total impact of this disposal is a consolidated loss amounting to 89 million (Refer to Note 11).

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

	<b>Carrying amount as of the date of disposal</b>
	<b>(in millions)</b>
<b>Net assets disposed of</b>	
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 )
<b>Total net assets disposed of</b>	<b>468</b>
<b>Disposal consideration</b>	
Cash consideration received	240
Deferred consideration	
<b>Total disposal price</b>	<b>240</b>
Gain/(loss) on share disposed of	(228 )

**(c) Other 2005 changes**

As part of the transaction with TCL Multimedia Technology Holdings Ltd 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 Technology Holdings Ltd, the new parent of TTE. The exchange occurred on August 10, 2005. After this exchange, TCL Multimedia Technology Holdings Ltd owns 100% of TTE.

This transaction has been 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 remains accounted for under the equity method.

The investment in TCL Multimedia Technology Holdings Ltd is subject to a full lock-up period until July 2007. After that date, Thomson is 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 will remain.

**Changes in 2004****(a) Main acquisitions**

On January 7, 2004, Thomson completed the acquisition of the Tubes division of the Chinese company Xinyuan Highway Development (known by the name of Fortune ). This activity was fully consolidated from that date. Concurrently with this operation, Thomson increased its ownership in Thomson Guangdong Display Co. Ltd. to 77%.



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On April 20, 2004, Thomson acquired International Recording, a Rome-based company specializing in creating multiple foreign language versions for theatrical and broadcast content, as well as for video games. This company is fully consolidated from that date.

On May 12, 2004, Thomson acquired Command Post, a leading Canadian provider of video/audio post-production and film services for the North American motion picture industry. This company is fully consolidated from that date.

On May 15, 2004, Thomson acquired the video division of ParkerVision, a pioneer of live television production automation systems. This activity is fully consolidated from that date.

On June 11, 2004, Thomson acquired from Beijing C&W Electronics (Group) Co. Ltd. the 45 % minority interest owned in Thomson Zhao Wei Multimedia Co., Ltd. (People's Republic of China). Thomson already held the other 55%, as well as joint control. This company then formed part of the TV business contributed by Thomson to TCL-Thomson Electronics (TTE) in July 2004.

On June 16, 2004, Thomson acquired from Alcatel a 25% minority interest in Nextream S.A. Thomson already held the other 75%, together with the management control. Nextream, which was fully consolidated, is now 100% held by the Group.

On June 18, 2004, Thomson acquired Madrid Film SL, the largest film and post-production operation in Spain, also known as Madrid Film Group. This company is fully consolidated from that date.

On June 24, 2004, Thomson acquired the HNS set-top box manufacturing assets 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 (STBs). This activity is fully consolidated from that date.

On July 19, 2004, Thomson acquired Gyration, a Silicon Valley technology company that has developed a line of next-generation user-interface (UI) devices using proprietary technology based on gyroscopes. The technology is currently incorporated in a variety of hand-held UI devices, mainly for personal computers (PCs). This company is fully consolidated from that date.

On July 31, 2004, Thomson and TCL combined their respective TV assets in a new company, TCL-Thomson Electronics (TTE), of which Thomson holds 33% and TCL 67%. Thomson has neither control nor joint control of TCL-Thomson Electronics (TTE) and consolidates this company under the equity method from July 31, 2004. The TV activity before July 31, 2004 is presented under full consolidation method. Thomson accounted the contribution of its TV business as a disposal (see more detail hereunder) and booked the 33% investment in this company as an acquisition.

On October 27, 2004, Thomson acquired 77.61% in Corinthian Television Facilities Limited (UK). Corinthian is one of Europe's leading broadcast television facilities companies providing live studios, graphics, video, audio production and post-production and transmission playout to major international broadcasters through long term contracts. This company is fully consolidated from that date.

On November 4, 2004, Thomson acquired a 50% interest in Beijing Nokia CITIC Digital Technology Co Ltd. This company is mainly engaged in the production of digital multimedia terminals for reception of digital broadcasting and interactive services via satellite, cable, terrestrial and telecom networks and related products and systems for digital Internet services. The company is consolidated under the proportionate consolidation method from that date.

On November 18, 2004, Thomson acquired EADS DCS (Defense and Communication Systems) Video Over Internet Protocol (IP) activity, specialised in the integration of video over IP systems, which enables seamless access to voice, data and video content. This activity is fully consolidated from that date.

On December 9, 2004, Thomson acquired The Moving Picture Company (MPC). MPC is a London (UK) provider of visual effects and post-production services to both the motion picture and commercial advertising industries. This company is fully consolidated from that date.



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For the main acquisitions mentioned above (except from the transactions with minority interests) the carrying amounts of the net assets acquired in the transactions, their fair values and the goodwill arising are as follows:

	<b>Acquirees carrying amount before combination</b>	<b>Fair value adjustments</b>	<b>Fair value</b>
	(in millions)		
<b>Net assets acquired</b>			
Property, plant and equipment	71	(28	) 43
Intangible assets	186	22	208
Inventories	4	1	5
Trade receivables	20	(1	) 19
Other assets	5	20	25
Bank and cash balances	13		13
Provisions	(3	) (1	) (4
Financial liability	(51	) 11	(40
Trade payables	(20	) (1	) (21
Other liabilities	(21	) (7	) (28
Deferred tax liabilities	2	(6	) (4
	<b>206</b>	<b>10</b>	<b>216</b>
<b>Purchase consideration</b>			
Cost of acquisition			318
Direct costs relating to the acquisitions			3
			<b>321</b>
			<b>105</b>

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

In 2004 up until their related acquisition dates, these acquisitions had revenue of 297 million and a profit from continuing operations before tax and finance costs of 20 million.

**(b) Main disposals**

On March 23, 2004, Thomson sold to the Taiwanese company, Foxconn, its optical pick-up manufacturing activity located in China within Thomson OKMCO Shenzhen Co. Ltd. As of December 31, 2005, Thomson has stopped its research, product development and selling activities in this business.

On June 25, 2004, in order to complete the agreements signed in 2003 concerning Canal Plus Technologies and the sale of the MediaGuard business to Kudelski, Thomson sold to Kudelski 50% of its shares into Canal Plus Technologies to form a joint venture in the field of the conditional access systems patents, which is consolidated under the proportionate consolidation method from that date.

On July 31 2004, Thomson and TCL combined their respective TV assets in a new company, TCL-Thomson Electronics (TTE), of which Thomson holds 33% and TCL 67%. Thomson sold its industrial TV assets mainly located in Mexico, Poland and Thailand as well as its R&D centres located in the US, Germany and Singapore. The new company TCL-Thomson Electronics (TTE) is licensed by Thomson for certain intellectual properties (trademarks and

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patents) and will exclusively use Thomson services for the distribution of TV sets in Europe and in the US, Thomson acting as an agent.

On September 22, 2004, Thomson sold its 19.9% interest in Total Technology Company Limited. Before that date, the company was consolidated under the equity method.

On December 10, 2004, Thomson sold its 36% interest in Keymro. The company that was proportionally consolidated is no longer consolidated from that date.

On December 31, 2004, Thomson sold Thomson Servicios Corporativos S.A de C.V, a set-top box manufacturing company in Mexico to Elcoteq. Prior to December 31, 2004 the activity was fully consolidated.

For all the disposals mentioned above, the carrying amounts of the net assets as of the date of disposal and as of January 1, 2004 were as follows:

	<b>Carrying amount as of the date of disposal</b>	<b>Carrying amount as of January 1, 2004</b>
	<b>(in millions)</b>	
<b><i>Net assets disposed of</i></b>		
Property, plant and equipment	142	147
Intangible assets	3	3
Inventories	211	211
Trade receivables	98	74
Other assets	74	51
Bank and cash balances	15	24
Provisions	(19	) (33
Trade payables	(180	) (131
Other liabilities	(100	) (121
Deferred tax liabilities	(10	) (2
	<hr/>	<hr/>
<b>Total net assets disposed of</b>	<b>234</b>	<b>223</b>
	<hr/>	<hr/>
<b>Disposal consideration</b>		
Cash consideration received	31	
Deferred consideration		
	<hr/>	
<b>Total disposal price</b>	<b>31</b>	
	<hr/>	
TTE shares received	308	
	<hr/>	

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## **6 Information by business segments and by geographic areas**

Thomson announced in November 2004 its new organization in order to align the Company's overall structure to delivering its 2006 targets. Thomson thus implemented a simple and flexible organizational and management structure as of January 1, 2005 with three divisions based on its core Media & Entertainment activities. The three divisions are:

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

Physical media: DVD and CD replication and distribution, VHS duplication and distribution, film printing,

Electronic media: post production, Archiving, Media Asset Management, VoD, Digital Cinema,

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

Systems & Equipment:

Broadcast & Networks,

Access, Platforms & Gateways,

Connectivity;

Technology: development and monetization of technology:

Research & Development,

Licensing of patents and trademarks,

Silicon solutions: IC design, Tuners and remotes,

Software and Technology Solutions: Security, Imaging and Networking Software Services.

Its remaining continuing but non-core activities including its holdings in TCL and Videocon industries are regrouped under its Displays & Consumer Electronics Partnerships (named Displays & CE Partnerships hereafter) segment.

Unallocated activities mainly comprising corporate functions are grouped under Corporate.

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

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

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	Services	Systems & Equipment	Technology	Displays & CE Partnerships	Corporate	Consolidation Adjustments	Total
<b>Year ended December 31, 2005</b>							
<b>(in millions)</b>							
<b>Income statement items</b>							
Revenues to external customers (1)	2,487	2,355	546	263	40		5,691
Intersegment sales	1	6	37	1	113	(158)	
<b>Profit (loss) from continuing operations before tax and financial result (2)</b>	<b>205</b>	<b>102</b>	<b>277</b>	<b>(123)</b>	<b>(79)</b>		<b>382</b>
<i>Out of which:</i>							
<i>Amortization of customer relationships (3)</i>	(27)	(25)					(52)
<i>Other depreciation and amortization (3)</i>	(299)	(59)	(13)	(15)	(4)		(390)
<i>Other non-cash expenses (4)</i>	(26)	(49)	(3)	(45)	(26)		(149)
<b>Profit/(loss) from associates</b>				<b>(82)</b>			<b>(82)</b>
<b>Profit (loss) from discontinued operations</b>		<b>(34)</b>	<b>(39)</b>	<b>(676)</b>			<b>(749)</b>
<b>Balance sheet items</b>							
<b>Assets</b>							
Operating segment assets (a)	2,123	1,241	175	108	37		3,684
Goodwill	1,107	621	28				1,756
Other segment assets	460	465	130	127	818		2,000
<b>Total segment assets (b)</b>	<b>3,690</b>	<b>2,327</b>	<b>333</b>	<b>235</b>	<b>855</b>		<b>7,440</b>
Interests in associates		3	4	197			204
Unallocated assets (c)							1,216
<b>Total consolidated assets</b>							<b>8,860</b>
<b>Liabilities</b>							
Segment liabilities	793	1,448	376	661	831		4,109
Unallocated liabilities (d)							2,535
<b>Total consolidated liabilities</b>							<b>6,644</b>
<b>Other information</b>							
Capital expenditures (e)	(134)	(96)	(23)	(7)	(7)		(267)
Capital employed (f)	1,745	555	22	76	(50)		2,348

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- (1) *The Services, Systems & Equipment and Technology segments generate substantially all of their revenues respectively from sale of services, sale of goods and royalties.*
- (2) *This profit line does not include inter-company items.*
- (3) *These figures, converted at average rate only relate to continuing operations and include amortization of customer advances (in other depreciation and amortization ).*
- (4) *Non-cash expenses include mainly net variation of provisions without cash impact.*
- (a) *Amounts include advances to suppliers and to customers.*
- (b) *Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, property plant and equipment and goodwill, net of depreciation and provisions. Amounts include advances to suppliers. Segment assets do not include income tax assets.*
- (c) *Unallocated assets include mainly financial assets, current accounts with affiliated companies, tax assets and assets available-for-sale.*
- (d) *Unallocated liabilities include mainly financial and tax liabilities and liabilities classified as held for sale.*
- (e) *Amounts before the net change in debt related to capital expenditure payables of (27) million for the year ended December 31, 2005.*
- (f) *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 (excluding reserves, together with those related to employee benefits, tax, payables on acquisition of companies and debt to suppliers of fixed assets).*

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	Services	Systems & Equipment	Technology	Displays & CE Partnerships (*)	Corporate	Consolidation Adjustments	Total
<b>Year ended December 31, 2004</b>							
<i>(in millions)</i>							
<b>Income statement items</b>							
Revenues to external customers (1)	2,338	2,109	498	1,068	23		6,036
Intersegment sales	2	9	41	9	144	(205)	
<b>Profit (loss) from continuing operations before tax and financial result (2)</b>	<b>227</b>	<b>121</b>	<b>302</b>	<b>(109)</b>	<b>(75)</b>		<b>466</b>
<i>Out of which:</i>							
<i>Amortization of customer relationships (3)</i>	(23)	(12)					(35)
<i>Other depreciation and amortization (3)</i>	(272)	(43)	(6)	(28)	(15)		(364)
<i>Other non-cash expenses (4)</i>	(22)	(58)	(4)	(72)	(47)		(203)
<b>Profit (loss) from associates</b>				<b>(20)</b>			<b>(20)</b>
<b>Profit (loss) from discontinued operations</b>		<b>20</b>	<b>(30)</b>	<b>(875)</b>			<b>(885)</b>
<b>Balance sheet items</b>							
<b>Assets</b>							
Operating segment assets (a)	1,775	1,079	88	732	48		3,722
Goodwill	832	332	14				1,178
Other segment assets	461	386	132	286	1,536		2,801
<b>Total segment assets (b)</b>	<b>3,068</b>	<b>1,797</b>	<b>234</b>	<b>1,018</b>	<b>1,584</b>		<b>7,701</b>
Interests in associates		3	5	252			260
Unallocated assets (c)							594
<b>Total consolidated assets</b>							<b>8,555</b>
<b>Liabilities</b>							
Segment liabilities	600	905	332	896	647		3,380
Unallocated liabilities (d)							2,682
<b>Total consolidated liabilities</b>							<b>6,062</b>
<b>Other information</b>							
Capital expenditures (e)	(160)	(72)	(5)	(36)	(10)		(283)
Capital employed (f)	1,539	441	(99)	415	(31)		2,265

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- (\*) *Includes the TV business up to the sale date, July 31, 2004 for 845 million in net sales.*
- (1) *The Services, Systems & Equipment and Technology segments generate substantially all of their revenues respectively from sale of services, sale of goods and royalties.*
- (2) *This profit line does not include inter-company items.*
- (3) *These figures, converted at average rate only relate to continuing operations and include amortization of customer advances (in other depreciation and amortization ).*
- (4) *Non-cash expenses include mainly net variation of provisions without cash impact.*
- (a) *Amounts include advances to suppliers.*
- (b) *Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, property plant and equipment and goodwill, net of depreciation and provisions. Amounts include advances to suppliers. Segment assets do not include income tax assets.*
- (c) *Unallocated assets include mainly financial assets, current accounts with affiliated companies, tax assets and assets available-for-sale.*
- (d) *Unallocated liabilities include mainly financial and tax liabilities and liabilities classified as held for sale.*
- (e) *Amounts before the net change in debt related to capital expenditure payables of (3) million for the year ended December 31, 2004.*
- (f) *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 (excluding reserves, together with those related to employee benefits, tax, payables on acquisition of companies and debt to suppliers of fixed assets).*

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	<b>France</b>	<b>Rest of Europe</b>	<b>US</b>	<b>Rest of Americas</b>	<b>Asia/Pacific</b>	<b>Elimination</b>	<b>Total</b>
(in millions)							
<b>December 31, 2005</b>							
Revenues from external customers (1)	1,365	1,141	2,483	408	294		<b>5,691</b>
Profit from continuing operations before tax and financial result (2)	185	93	39	27	38		<b>382</b>
Segment assets	1,840	1,170	3,574	411	445		<b>7,440</b>
Capital expenditure	(73 )	(52 )	(120 )	(7 )	(15 )		<b>(267 )</b>
<b>December 31, 2004</b>							
Revenues from external customers (1)	1,412	1,096	2,902	362	264		<b>6,036</b>
Profit from continuing operations before tax and financial result (2)	233	134	43	11	45		<b>466</b>
Segment assets	2,009	1,420	3,012	435	825		<b>7,701</b>
Capital expenditure	(41 )	(70 )	(124 )	(19 )	(29 )		<b>(283 )</b>

(1) Net sales and profit from continuing operations are classified by the location of the business that invoices the customer and therefore does not seek to represent end-client activity .

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

[Back to Index](#)**7 Selling, general, administrative expenses and others**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>
	(in millions)	
Selling and marketing expenses	(282)	(326)
General and administrative expenses	(373)	(336)
Other income (expense) (a)	(98)	(70)
	<hr/>	<hr/>
<b>Total selling, general, administrative expenses and others</b>	<b>(753)</b>	<b>(732)</b>
	<hr/>	<hr/>

(a) The line Other income (expense) is detailed as follow:

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>
	(in millions)	
Goodwill impairment charges (1)		(12)
Gain on disposal of fixed assets/investments	(1)	)
Restructuring expenses and long-lived asset write-offs (2)	(67)	(79)
Other	(30)	21
	<hr/>	<hr/>
<b>Total other income (expense), net</b>	<b>(98)</b>	<b>(70)</b>
	<hr/>	<hr/>

(1) Goodwill impairment charges for the year ended December 31, 2004:

The 12 million of goodwill impairment relate to (i) the Services Division for (5) million and (ii) the Display and CE partnership activities for (7) million.

(2) Restructuring expenses and long-lived asset write-offs:

Restructuring expenses amount to (51) million and (70) million for the year ended December 31, 2005 and 2004, respectively and are disclosed in Note a. 27;

b. Write off of long-lived assets amounts to (16) million and (9) million for the year ended December 31, 2005 and 2004, respectively.

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.

**8 Research and development expense**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>
	(in millions)	
Research and development expense gross	(287)	(218)
Capitalized development projects	65	21
Amortization of research and development intangible assets (*)	(24)	(15)
Subsidies	12	8
	<hr/>	<hr/>
<b>Research and development expense net</b>	<b>(234)</b>	<b>(204)</b>
	<hr/>	<hr/>

(\*) The Group records the amortization expense for capitalized research and development projects on this caption except for such amortization related to projects which have passed into the production, marketing and selling phase which is classified in Cost of sales .

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	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>
	<b>(in millions)</b>	
Interest income	30	52
Interest expense	(108)	(54)
	<u>(78)</u>	<u>(2)</u>
<b>Interest (expense) income, net (1)</b>	<b>(78)</b>	<b>(2)</b>
Financial component of pension plan expenses	(29)	(35)
Other financial charges (1)	(7)	(21)
Exchange profit (loss) (2)	(22)	21
Fair value on financial instrument (loss)	(8)	)
Change in fair value of the SLP USD convertible debt (3)	94	
Other	(4)	8
	<u>24</u>	<u>(27)</u>
<b>Other financial (expense) income, net</b>	<b>24</b>	<b>(27)</b>
	<u>(54)</u>	<u>(29)</u>
<b>Total financial result</b>	<b>(54)</b>	<b>(29)</b>

(1) Prepaid bank fees on debts issued are included, according to IAS 32 and 39 applied as from January 1st 2005, in the effective interest rate on debts. In 2005, prepaid bank fees are classified in Interest expense instead of Other financial charges (2004 classification) because of the effective interest rate method.

(2) Including (11) million of exchange loss related to the embedded derivative of the SLP USD convertible.

(3) As explained in Notes 2 and 4, an embedded derivative is accounted for separately from the debt for the Silver Lake US dollar convertible. Because the group adopted IAS 32 and 39 from January 1, 2005, the change in fair value from inception date (September 2004 to December 31, 2004) is presented in equity for (85) million. The change in fair value of the option from January 1, 2005 is then reflected in financial result for 94 million. The impact of change in currency rate on the debt amounts to (11) million (see below).

**10 Income tax**

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 S.A. now files a worldwide consolidated tax return (hereafter referred to as the Regime ).

This Regime provides that the basis for income tax computation of the parent company includes the taxable result of French and foreign entities more than 50% owned (the Foreign Entities ). Within certain limits, the French Tax Code allows 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, allows for the application of foreign taxes due in local jurisdictions and related to foreign entities more than 50% owned, to be applied as a credit to income taxes due in France.

The Regime which applied for a period of 5 years starting January 1<sup>st</sup> 2001 until December 31<sup>st</sup> 2005 has not been renewed for the next period starting January 1<sup>st</sup> 2006. Therefore the last Regime tax return for the year 2005 will be filed in November 2006. The impacts of the Regime are taken into account in the 2005 and previous years accounts.

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Income tax expense is summarized below:

	<u>2005</u>	<u>2004</u>
	(in millions)	
<b>Current income tax</b>		
France	(8 )	(21 )
Foreign	(34 )	(70 )
	<u>(42 )</u>	<u>(91 )</u>
<b>Deferred income tax</b>		
France	51	(78 )
Foreign	(79 )	76
	<u>(28 )</u>	<u>(2 )</u>
<b>Total income tax expense on continuing operations</b>	<u>(70 )</u>	<u>(93 )</u>

In 2005, the Group income tax expense on continuing operations (current and deferred income tax) amounted to 70 million compared with 93 million in 2004.

The Group current tax charge amounted to 42 million in 2005, compared with 91 million in 2004. This tax charge is notably the result of current taxes occurring in the United Kingdom, Mexico, Australia, Canada and the Netherlands, 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 France and in the USA and are thus booked as an income tax charge.

In 2005, Thomson booked a net deferred tax charge of 28 million, explained mainly by: (i) 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 (ii) the de-recognition of 77 million of deferred tax assets in the USA reflecting a 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 2005 *Loi des Finances* 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).

**(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, 2005 and at December 31, 2004 - to the reported tax expense.



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The reconciling items are described below:

	<u>2005</u>	<u>2004</u>
	(in millions)	
<b>Net income/(loss)</b>	<b>(573)</b>	<b>(561)</b>
Discontinued Operations	(749)	(885)
Income tax	(70)	(93)
Share of loss from associates	(82)	(20)
<b>Pre-tax accounting income on continuing operations</b>	<b>328</b>	<b>437</b>
<b>Theoretical income tax using the statutory rate</b>	<b>(109)</b>	<b>(146)</b>
Unrecognized deferred tax assets (1)	15	47
Change in valuation allowance (2)	(30)	23
Tax credits	26	
Effect of difference in tax rates (3)	47	30
Permanent differences	8	
Withholding taxes not recovered (4)	(30)	(35)
Other, net (5)	3	(12)
<b>Effective income tax on continuing operations</b>	<b>(70)</b>	<b>(93)</b>
<b>Pre-tax accounting income on continuing operations</b>	<b>328</b>	<b>437</b>
<b>Effective tax rate</b>	<b>21</b>	<b>% 21 %</b>

- (1) In 2005, unrecognized deferred tax assets represent (i) the tax savings from the tax losses carried forward not recognized in previous year for 36 million mainly in France and (ii) tax losses generated during the year which have not generated deferred tax assets for (21) million. In 2004, the tax savings for the tax losses carried forward not recognized in previous year amount to 56 million mainly in France and tax losses generated during the year which have not generated deferred tax assets amount to (9) million.
- (2) In 2005, change in valuation allowance relates to a (77) million write-off on the US perimeter, a (6) million write-off in Italy and a 51 million recognition of deferred tax assets in France. In 2004, change in valuation allowance relates to a (57) million write-off on the French perimeter, a (5) million write-off in Italy and a 83 million recognition of deferred tax assets in the USA.
- (3) In 2005, this amount comprises 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%).
- (4) Withholding tax not recovered relates to withholding tax paid on licensing revenues not refunded through current income tax in France and in the USA.
- (5) 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:**

	<u>Deferred tax assets</u>	<u>Deferred tax liabilities</u>	<u>Total, net deferred tax assets</u>
	(in millions)		
<b>At January 1, 2004</b>	<b>317</b>	<b>(63)</b>	<b>254</b>
Changes impacting 2004 result	(93)	91	(2)
Other movement (*)	77	(65)	12
<b>Year ended December 31, 2004</b>	<b>301</b>	<b>(37)</b>	<b>264</b>

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Changes impacting 2005 result	33	(61	) (28	)
Other movement (*)	45	(64	) (19	)
<b>Year ended December 31, 2005</b>	<b>379</b>	<b>(162</b>	<b>) 217</b>	

(\*) 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).

In 2005, this caption corresponds mainly to change in scope ( -48 million) and currency translation adjustments ( +24 million).



[Back to Index](#)**(c) Analysis of tax position by major temporary differences and unused tax losses and credits:**

	2005	2004
	<u>          </u>	<u>          </u>
	(in millions)	
<b>Tax effect of tax loss carry-forwards</b>	<b>1,038</b>	<b>865</b>
	<u>          </u>	<u>          </u>
<b>Foreign tax credit related to the Regime <sup>(1)</sup></b>		<b>233</b>
	<u>          </u>	<u>          </u>
<i>Tax effect of temporary differences related to:</i>		
Property, plant and equipment	28	100
Goodwill		
Intangible assets	(80	) (26
Investments and other non current assets	(6	) 1
Inventories	4	6
Receivables and other current assets	(17	) 8
Borrowings	22	7
Reserve for post-employment benefits	215	186
Restructuring provisions	13	22
Other provisions	71	34
Other liabilities	84	50
	<u>          </u>	<u>          </u>
<b>Total deferred tax on temporary differences</b>	<b>334</b>	<b>388</b>
	<u>          </u>	<u>          </u>
<b>Deferred tax assets/(liabilities) before netting</b>	<b>1,372</b>	<b>1,486</b>
	<u>          </u>	<u>          </u>
Valuation allowances on deferred tax assets	(1,155	) (1,222
	<u>          </u>	<u>          </u>
<b>Net deferred tax assets/(liabilities)</b>	<b>217</b>	<b>264</b>
	<u>          </u>	<u>          </u>

(1) Foreign tax credits are comprised of corporate taxes paid outside France and deductible from the Regime future income tax payable.

**(d) Expiration of the tax loss carry forward:**

	(in millions)
	<u>          </u>
2006	14
2007	5
2008	1
2009	100
2010	1
2011 and thereafter	2,994
	<u>          </u>
<b>Total</b>	<b>3,115</b>
	<u>          </u>



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**11 Discontinued operations**

**(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 transactions 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 will take over its tubes glass activity, Videoglass, situated 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.

On December 23, 2005 Thomson sold definitively its glass plant for 1 and is committed to certain payments to Rioglass linked to the reconversion of the Bagneaux site. Consequently, the total consolidated loss linked to the disposal of Videoglass amounts in 2005 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 occurred on September 30, 2005. Thomson received a cash payment of 240 million for its Tubes activities and technology and reinvested a similar amount in certain Videocon entities (see Note 16).

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

In 2005, Thomson agreed to transfer to a German Company its remaining optical technology assets and people in the first semester of 2006.

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. The respective loss from operations of discontinued optical business amounts to 34 million in 2005 and 28 million in 2004.

**(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 (named AVA business thereafter). These operations meet the criteria for being classified as discontinued and the related assets and liabilities are presented as held for sale.

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The results of these discontinued operations are as follows:

	Year ended December 31, 2005			Year ended December 31, 2004		
	Sales related to the displays and optical businesses	Sales related to the AVA business	Total	Sales related to the displays and optical businesses	Sales related to the AVA business	Total
	(in millions)					
Revenues	579	809	1,388	1,088	890	1,978
Cost of sales	(690)	(666)	(1,356)	(1,075)	(706)	(1,781)
<b>Gross Margin</b>	<b>(111)</b>	<b>143</b>	<b>32</b>	<b>13</b>	<b>184</b>	<b>197</b>
Expenses other than impairment of assets	(569)	(169)	(738)	(289)	(160)	(449)
Loss on impairment of assets	(8)		(8)	(593)		(593)
<b>Loss from operations before tax and finance cost</b>	<b>(688)</b>	<b>(26)</b>	<b>(714)</b>	<b>(869)</b>	<b>24</b>	<b>(845)</b>
Net interest expense <sup>(1)</sup>	(10)	(3)	(13)	(19)	(3)	(22)
Other financial expense	(12)	(7)	(19)	(30)	(1)	(31)
Income tax	(1)	(3)	(4)	17	(2)	15
Minority interests	1		1	(2)		(2)
<b>Profit (loss) for the year from discontinued operations</b>	<b>(710)</b>	<b>(39)</b>	<b>(749)</b>	<b>(903)</b>	<b>18</b>	<b>(885)</b>

(1) Consisting of interest expense of (15) million less interest income of 2 million and interest expense of (23) million less interest income of 1 million for the periods ending December 31, 2005 and 2004 respectively.

The assets and liabilities attributable to the operations discontinued and not yet sold 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:

Year ended December 31, 2005		
Assets and liabilities related to the displays and optical businesses	Assets and liabilities related to the AVA business	Total
(in millions)		

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Goodwill and intangible assets		44	44
Property, Plant and Equipment		12	12
Other assets		10	10
Inventories		119	119
Account receivable and other receivable	12	172	184
<b>Total - Assets classified as held for sale</b>	<b>12</b>	<b>357</b>	<b>369</b>
		<hr/>	<hr/>
Provisions and Restructuring	35	28	63
Borrowings		3	3
Liabilities working capital	22	382	404
		<hr/>	<hr/>
<b>Total - Liabilities directly associated with assets classified as held for sale</b>	<b>57</b>	<b>413</b>	<b>470</b>
		<hr/>	<hr/>

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[Back to Index](#)**12 Property, plant and equipment**

	<u>Land</u>	<u>Buildings</u>	<u>Machinery &amp; Equipment</u>	<u>Other tangible assets</u>	<u>Total</u>
(in millions)					
<b>At January 1, 2004</b>					
Cost	77	578	2,870	343	3,868
Accumulated depreciation	(1	) (225	) (1,902	) (87	) (2,215
<b>Net amount</b>	<b>76</b>	<b>353</b>	<b>968</b>	<b>256</b>	<b>1,653</b>
<b>Year ended December 31, 2004</b>					
Opening net amount at January 1, 2004	76	353	968	256	1,653
Exchange differences	(2	) (5	) (30	) (9	) (46
Acquisition of subsidiaries <sup>(1)</sup>	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
<b>Closing net amount at December 31, 2004</b>	<b>58</b>	<b>179</b>	<b>630</b>	<b>184</b>	<b>1,051</b>
<b>At December 31, 2004</b>					
Cost	62	383	2,039	330	2,814
Accumulated depreciation	(4	) (204	) (1,409	) (146	) (1,763
<b>Net amount</b>	<b>58</b>	<b>179</b>	<b>630</b>	<b>184</b>	<b>1,051</b>
<b>Year ended December 31, 2005</b>					
Opening net amount at January 1, 2005	58	179	630	184	1,051
Exchange differences	6	16	74	22	118
Acquisition of subsidiaries <sup>(1)</sup>		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
<b>Closing net amount at December 31, 2005</b>	<b>51</b>	<b>142</b>	<b>552</b>	<b>141</b>	<b>886</b>
<b>At December 31, 2005</b>					
Cost	53	223	1,149	288	1,713
Accumulated depreciation	(2	) (81	) (597	) (147	) (827
<b>Net amount</b>	<b>51</b>	<b>142</b>	<b>552</b>	<b>141</b>	<b>886</b>

(1) This line item includes not only the impact of the acquisitions of the year as disclosed in Note 5 but also the impact of purchase price allocations of previous year acquisitions (impact of definitive allocation of the purchase price).

Any impairment loss is charged in Selling, general and administrative expenses and other income (expense) for continuing operations and in Profit (loss) from discontinued operations for expenses related to discontinued activities.

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	<b>Patents &amp; Trademarks <sup>(1)</sup></b>	<b>Customer relationships <sup>(1)</sup></b>	<b>Other intangibles <sup>(3)</sup></b>	<b>Total intangible assets</b>	<b>Goodwill <sup>(1)</sup></b>
	<b>(in millions)</b>				
<b>At January 1, 2004</b>					
Cost	495	396	177	1,068	1,100
Accumulated amortization and impairment	(98)	(54)	(123)	(275)	( )
<b>Net amount</b>	<b>397</b>	<b>342</b>	<b>54</b>	<b>793</b>	<b>1,100</b>
<b>Year ended December 31, 2004</b>					
Opening net amount at January 1, 2004	397	342	54	793	1,100
Exchange differences	(24)	(35)	(3)	(62)	(74)
Acquisition of subsidiary <sup>(2)</sup>	4	188	3	195	308
Disposal of subsidiary			(2)	(2)	(7)
Additions	13	3	52	68	
Depreciation charge	(12)	(35)	(31)	(78)	
Impairment loss					(12)
Other	(3)		13	10	(137)
<b>Closing net amount at December 31, 2004</b>	<b>375</b>	<b>463</b>	<b>86</b>	<b>924</b>	<b>1,178</b>
<b>At December 31, 2004</b>					
Cost	480	545	233	1,258	1,190
Accumulated amortization and impairment	(105)	(82)	(147)	(334)	(12)
<b>Net amount</b>	<b>375</b>	<b>463</b>	<b>86</b>	<b>924</b>	<b>1,178</b>
<b>Year ended December 31, 2005</b>					
<i>Impact of 1st application of IAS 32/39 <sup>(4)</sup></i>					8
Opening net amount at January 1, 2005	375	463	86	924	1,186
Exchange differences	48	71	7	126	145
Acquisition of subsidiary <sup>(2)</sup>	27	76	50	153	431
Additions	23		81	104	
Depreciation charge	(25)	(52)	(48)	(125)	
Impairment loss					
Reclassification as held for sale	(25)	(2)	(8)	(35)	(9)
Other	(5)	2	6	3	3
<b>Closing net amount at December 31, 2005</b>	<b>418</b>	<b>558</b>	<b>174</b>	<b>1,150</b>	<b>1,756</b>
<b>At December 31, 2005</b>					
Cost	557	706	342	1,605	1,761
Accumulated amortization and impairment	(139)	(148)	(168)	(455)	(5)
<b>Net amount</b>	<b>418</b>	<b>558</b>	<b>174</b>	<b>1,150</b>	<b>1,756</b>

<sup>(1)</sup> See details in tables below.<sup>(2)</sup> This line item includes not only the impact of the acquisitions of the year as disclosed in Note 5 but also the impact of purchase price allocations of previous year acquisitions (impact of definitive allocation of the purchase price).<sup>(3)</sup> Includes capitalized development projects.<sup>(4)</sup> Commitment to purchase minority interests (see Note 38.5).



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		As of December 31, 2005			As of December 31, 2004
	Purchase Date	Gross	Impairment	Net	Net
	<i>(in millions)</i>				
ATLINKS	1999 & 2003	51		51	50
Technicolor Group (1)	2001	445		445	387
Screenvision US	2001	34		34	30
BTS	2001 & 2002	107		107	107
Nextream	2001 & 2004	18		18	18
Thomson Broadband (ADSL)	2001	53		53	53
Vidfilm	2002	28		28	25
Grass Valley	2002	85		85	74
Southern Star Duplitek	2002	28		28	26
Panasonic Disc Services Corporation (PDSC) (1)	2002	241		241	207
Screenvision Europe	2002 & 2003	16	(5	) 11	11
Technicolor Digital Cinema	2003	19		19	16
Cinecolor	2003	12		12	11
Corinthian	2004	32		32	25
The Moving Picture Company	2004	63		63	68
Inventel (2)	2005	117		117	
Cirpack (2)	2005	56		56	
ContentGuard (2)	2005	20		20	
PRN (2)	2005	164		164	
Thales Broadcast & Multimedia (2)	2005	109		109	
Others (less than 10 million net individually)		63		63	70
<b>Total</b>		<b>1,761</b>	<b>(5</b>	<b>) 1,756</b>	<b>1,178</b>

(1) Technicolor goodwill gross value increased by 58 million due to currency changes. PDSC goodwill gross value increased in 2005 by 30 million due to currency changes and by 4 million due to a commitment to purchase minority interests (see Note 38.5).

(2) As of December 31, 2005, a preliminary purchase price allocation had been carried out on these companies. The final assessment should be completed no later than 12 months after the acquisition date.

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### **Patents, trademarks and customer relationships**

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

Patents, trademarks and customer relationships consist mainly of:

trademarks of Technicolor® ( 190 million at December 31, 2005), MPC ( 2 million at December 31, 2005), Grass Valley® ( 38 million at December 31, 2005) and THOMSON®;  
customer relationships of Technicolor ( 177 million, remaining amortization period of around 11 years), HNS ( 164 million, remaining amortization period of around 6 years), PDSC ( 61 million), Screenvision Europe ( 18 million), Southern Star Duplitek ( 27 million) and Vidfilm ( 29 million);  
a license to use the RCA® trademark for consumer electronics products was obtained in 1988 and in 1999 an extended usage of the RCA® trademark was purchased from General Electric.

### **Other intangible assets**

This caption mainly comprises capitalized development projects and software.

### **Impairment of goodwill and trademarks**

Impairment tests of goodwill are carried out based on groups of Cash-Generating Units (identified 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 of information that is given to the Executive Committee for management purposes:

in the Services division, 3 goodwill reporting units were identified, DVD activities, Film & Content Services and Network Services;  
in the Systems & Equipment division, 2 goodwill reporting units were identified, Access Platforms & Gateways and Broadcast & Networks ( Grass Valley );  
the Technology division is considered as a single goodwill reporting unit.

Trademarks are considered as indefinite life assets. Consequently, they should be tested annually for impairment. For the purpose of this test, trademarks are either tested on a stand-alone basis by calculating their fair value or as part of a cash-generating unit by calculating the value-in-use of such CGU. 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. This method is commonly used to estimate the fair value of trade names.

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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 & Equipment	
	DVD Services	Film & Content Services	Network operation services	Access Platform & Gateways	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 Budget & cash flow projections, royalty rate for Grass Valley trademark
Description of key assumptions	Budget & cash flow projections	Budget & cash flow projections	Budget & cash flow projections	Budget & cash flow projections	Budget & cash flow projections
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	3%	3%	3%	3%	3%
Post-tax discount rate applied <sup>(1)</sup>					
- 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%

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

	Services			Systems & Equipment		Total affected	Total
	DVD Services	Film & Content Services	Network Operation Services	Access Platform & Gateways	Broadcast & Networks		
<b>As of December 31, 2005</b>							
Gross amount of goodwill	544	314	254	274	327	1,713	<b>1,761</b>
Impairment			(5)			(5)	<b>(5)</b>
Net amount of goodwill	544	314	249	274	327	1,708	<b>1,756</b>
<b>As of December 31, 2004</b>							
Gross amount of goodwill	474	292	71	103	205	1,145	<b>1,190</b>
Impairment			(5)			(5)	<b>(12)</b>
Net amount of goodwill	474	292	66	103	205	1,140	<b>1,178</b>
Net amount of trademarks <sup>(a)</sup>	192				38	230	<b>257</b>
Net amount of trademarks <sup>(a)</sup>	165				33	198	<b>243</b>

(a) Trademarks included in each unit are:

*Technicolor® (used both in the DVD Services and in the Film & Content Services reporting unit) and The Moving Picture Company® (MPC) included in the Film & Content Services reporting unit;  
Grass Valley® for the Broadcast & Networks reporting unit.*

In 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. The recoverable amount of this goodwill is its value in use;

5 million of goodwill impairment relating to the Screenvision Europe activity within Services, in the line item Selling, general, administrative expenses and others .

[Back to Index](#)**14 Investments in associates**

	Period ended December 31,	
	2005	2004
	(in millions)	
<b>Beginning of the year</b>	<b>260</b>	<b>11</b>
Acquisition of associates		279
Share of (loss)/profit before impairment on associates	(19	) (2
Impairment charge on associates	(63	) (18
Foreign Exchange differences	30	(10
Other equity movements	(4	)
<b>End of the year</b>	<b>204</b>	<b>260</b>

Summarized financial information in respect of the Group's associates is set out below:

	2005	2004
	(in millions)	
<b>Balance Sheet</b>		
Total assets	1,858	1,439
Total liabilities	(1,340	) (1,044
<b>Total net assets</b>	<b>518</b>	<b>395</b>
<b>Group's share of associates' net assets before goodwill on associates</b>	<b>139</b>	<b>127</b>
Goodwill on associates	65	133
<b>Group's share of associates' net assets</b>	<b>204</b>	<b>260</b>
<b>Income Statement</b>		
Revenues	3,351	1,542
Profit/(loss) for the period	(57	) (6
<b>Group's share of associates' profit/(loss) for the period before impairment</b>	<b>(19</b>	<b>) (2</b>
<b>Impairment charge on associates</b>	<b>(63</b>	<b>) (18</b>
<b>Group's share of associates' profit/(loss) for the period</b>	<b>(82</b>	<b>) (20</b>

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Details of investments in associates are summarized below:

	<u>% Interest</u>	<u>Group's share of associates' net assets</u>	<u>Group's share of associates' profit (loss)</u>	
	<u>December</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>	
	<u>(in millions)</u>			
TCL-Thomson Electronics/TCL Multimedia (*)	29.32	% 193	249	(82 ) (20 )
CTE El Athir (Tunisia)	30.0	% 4	3	
EasyPlug, S.A.S. (France)	50.0	% 3	3	
Techfund Capital Europe (France)	20.0	% 2	3	
Others (less than 2 million individually)		2	2	
<b>Total</b>		<b>204</b>	<b>260</b>	<b>(82 ) (20)</b>

(\*) On July 31, 2004, Thomson and TCL combined their respective TV assets in a new company, TTE, of which Thomson holds 33% and TCL 67%. Thomson contributed its industrial TV assets. Thomson has neither control nor joint control of TCL-Thomson Electronics and accounts for its investment in TCL-Thomson Electronics under the equity method from July 31, 2004. The TV activity before July 31, 2004 is presented under full consolidation method. Thomson accounted for the contribution of its TV business as a disposal and booked the 33% interest in TCL-Thomson Electronics as an acquisition. Pursuant to the transaction, Thomson exchanged on August 10, 2005 its 33% investment in TCL Thomson Electronics against 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. The financial statements of TCL Multimedia used for the Group's 2005 financial statements and presented here are from October 1, 2004 to September 30, 2005 because TCL Multimedia releases its financial statements at a later date than Thomson does.

	<u>Period ended December 31,</u>	
	<u>2005 (a)</u>	<u>2004 (b)</u>
	<u>(in millions)</u>	
<b>Investment in TTE/TCL</b>	<b>193</b>	<b>249</b>
Of which share in net equity	129	116
Of which related goodwill	64	133
<b>Market value of the investment in TCL based on quotations</b>	<b>139</b>	<b>(c)</b>

- (a) As of December 31, 2005, Thomson's management determined that a triggering event occurred because the market value of its investment in TCL Multimedia 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. In order to assess the present value of related cash flows, Thomson used a 9.2% discount rate and a perpetual growth rate of 2.3%. As a result of the impairment test, Thomson recognized a 63 million impairment for the year ended December 31, 2005 on the carrying amount of its investment in TCL Multimedia.
- (b) As of December 31, 2004, Thomson identified certain triggering event requiring a review for impairment of its investment in TTE. This review resulted in the recognition of an impairment charge amounting to 18 million. This charge has been posted in the caption Share of profit (loss) from associates.
- (c) The investment in TTE in 2004 was not quoted.





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The Group's interests in jointly controlled entities are reported using the proportionate consolidation method. Screenvision Europe and Screenvision US represent the main interests of the Group in jointly controlled entities.

Joint ventures' contribution to the Group's balance sheet and income statement items is summarized below:

	<b>Period ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
	(in millions)	
<b>Balance Sheet</b>		
Total current assets	71	59
Total long-term assets	102	85
Total current liabilities	89	75
Total long-term liabilities	12	10
<b>Income Statement</b>		
Revenue	97	84
Expenses	(93	) (83
	)	)
<b>Contribution to the Group's income for the period</b>	<b>4</b>	<b>1</b>

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[Back to Index](#)**16 Investments and financial assets available-for-sale**

	<b>Investments in:</b>		
	<b>Listed securities</b>	<b>Unlisted securities (1)</b>	<b>Total</b>
	<b>(in millions)</b>		
<b>January 1, 2004</b>	<b>14</b>	<b>111</b>	<b>125</b>
Acquisitions	24	22	46
Disposals		(50)	(50)
Foreign Exchanges differences	(2)	(6)	(8)
<b>December 31, 2004</b>	<b>36</b>	<b>77</b>	<b>113</b>
Impact of 1 <sup>st</sup> application of IAS 32/39 (2)	26		26
<b>January 1, 2005</b>	<b>62</b>	<b>77</b>	<b>139</b>
Acquisitions (3)	241	25	266
Disposals (4)	(59)		(59)
Fair value adjustment (5)	(9)		(9)
Impairment recorded through income	(3)	(8)	(11)
Foreign Exchanges differences	3	12	15
<b>December 31, 2005</b>	<b>235</b>	<b>106</b>	<b>341</b>

(1) This caption includes minority positions in unquoted companies strategic to the Group, including at December 31, 2005, a preference share investment totaling 84 million at December 31, 2005 closing rate.

(2) Available-for-sale assets are recognized at fair value. For listed shares, the restatement consists of recognizing in shareholders' equity, the temporary difference between the carrying value and the market value, net of any possible deferred tax impacts.

(3) Mainly acquisition of Videocon Industries GDRs in relation with the exit of our Tubes activity.

(4) This amount includes (15) million of previous year fair value adjustments recognized on investments that have been sold in 2005.

(5) This caption includes fair value adjustments recorded directly in equity for (9) million.

**17 Contract advances**

	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>	
<b>Technicolor</b>		
Net amount of customer advances at year-end	163	164
Amortization booked during the year	(131)	(134)
<b>Screenvision (US and Europe)</b>		
Net amount of customer advances at year-end	10	15
Amortization booked during the year	(16)	(10)

[Back to Index](#)**18 Inventories**

	<u>2005</u>	<u>2004</u>
	(in millions)	
Raw materials	129	149
Work in process	45	52
Finished goods and purchased goods for resale	209	428
Sub-total	383	629
Less: valuation allowance	(50 )	(61 )
<b>Total</b>	<b><u>333</u></b>	<b><u>568</u></b>

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

**19 Trade accounts and notes receivables**

	<u>2005</u>	<u>2004</u>
	(in millions)	
Trade accounts and notes receivable (1)	1,351	1,222
Less: valuation allowance	(36 )	(42 )
<b>Total</b>	<b><u>1,315</u></b>	<b><u>1,180</u></b>

(1) Including advances to suppliers sales deductions and price protection. Allowances are deducted from trade accounts and notes receivables gross for 143 million and 230 million as of December 31, 2005 and 2004, respectively.

**Sales of receivables**

The Group had in place a securitization program, from December 2002 to March 2005, which covered certain of its North American receivables. Under the program Thomson Inc. entered into an agreement allowing the sale, on a revolving basis, of a senior undivided ownership interest in a designated pool of receivables up to a maximum of USD 300 million. In 2004 the amount of the program was reduced to USD 200 million ( 147 million at the December 2004 closing rate) and in March 2005 Thomson cancelled the program.

No sales of receivables were outstanding at December 31, 2004 under the securitization program.

Thomson sold receivables without recourse in 2005 for an amount of 7 million (no receivables without recourse were sold in 2004). These receivables have been derecognized as Thomson transferred all significant risks and rewards of the ownership of these receivables.

[Back to Index](#)**20 Other current assets**

	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
	<b>(in millions)</b>	
Value added tax receivable (1)	133	100
Other taxes receivable	8	8
Subsidies	11	19
Prepaid expenses	56	44
Other (2)	436	445
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>644</b>	<b>616</b>
	<u>          </u>	<u>          </u>

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

(2) As of December 31, 2005 and 2004, other current assets include :

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

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

(iii) nil and 114 million of hedge reevaluation suspense asset respectively (in 2005, this asset is now accounted for as a derivative financial instrument and presented separately (see Note 23)).

**21 Cash and cash equivalents**

	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
	<b>(in millions)</b>	
Cash	376	517
Cash equivalents	620	1,331
	<u>          </u>	<u>          </u>
<b>Total</b>	<b>996</b>	<b>1,848</b>
	<u>          </u>	<u>          </u>
<i>Of which restricted cash deposits (1)</i>	<i>66</i>	<i>55</i>
	<u>          </u>	<u>          </u>

(1) Deposits of 50 million and 55 million at December 31, 2005 and December 31, 2004 respectively by TCE Television Taiwan guaranteeing loans to Thomson for the same amounts and at December 31, 2005 a 16 million deposit by Thomson Media Services France guaranteeing an external purchase commitment of certain minority shareholders for the same amount.

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

[Back to Index](#)**22 Shareholders equity****(a) Common stock and additional paid-in capital**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
Outstanding number of shares	273,308,032	273,308,032
Nominal value in	3.75	3.75
<b>Thomson share capital in</b>	<b><u>1,024,905,120</u></b>	<b><u>1,024,905,120</u></b>

**(b) Treasury shares**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
<b>Treasury stock at cost ( )</b>	<b><u>238,982,228</u></b>	<b><u>55,307,575</u></b>
<b>Number of Treasury shares held</b>	<b><u>12,732,712</u></b>	<b><u>3,082,766</u></b>
<i>Out of which</i>		
<i>purchased in the period</i>	<i>15,626,318</i>	<i>4,157,010</i>
<i>delivered</i>	<i>(2,352,544</i>	<i>) (141,838</i>
<i>cancelled</i>		<i>(7,305,476</i>
<i>sold but not yet delivered (*) (Inventel and Cirpack)</i>	<i>(3,623,828</i>	<i>)</i>

(\*) *Adjusted to potential additional shares as described in Note 5.*

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

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 has been delivered on March 29, 2005 as part of the consideration paid for the acquisition of Inventel (Note 5) and 896 shares have been delivered in December 2005 due to requests of conversions of convertible bonds.

**(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 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 payable 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.



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The notes have a provision under which 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 BAA3 by Moody's or BBB- by S&P. If such event occurs, 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.

**(d) Dividends and distributions**

In 2005 and 2004, Thomson paid to its shareholders a total dividend of \$77 million and \$71 million respectively, which represents \$0.285 and \$0.26 per share respectively.

Thomson's Board of Directors held on February 21, 2006 approved a distribution of \$0.30 per share. This distribution is subject to the shareholders' agreement at the Shareholders' Meeting convened on May 12, 2006.

The payment of the proposed distribution would eliminate the option to defer the interest on the subordinated perpetual notes referred to above. Of the interest thereby payable, \$7.7 million would be accounted as an additional distribution in respect of the 2005 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.

**(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 profit and loss during the period as the hedged transactions occurred. At December 31, 2005, \$4 million has been recognized in equity.

[Back to Index](#)**23 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 calculated by the banks is used. The fair value of forward exchange contracts and currency swaps are computed by discounting the difference between the 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 software and verified with the banks.

	December 31, 2005		January 1, 2005 (*)	
	Assets	Liabilities	Assets	Liabilities
	(in millions)			
Interest-rate swaps not designated as hedges <sup>(1)</sup>	1			
Interest-rate swaps fair value hedges <sup>(1)</sup>		11	11	
Equity options (Silver Lake bond conversion option)		46		122
<b>Total non-current</b>	<b>1</b>	<b>57</b>	<b>11</b>	<b>122</b>
Forward foreign exchange contracts- cash flow and fair value hedges	5	6	16	15
Forward foreign exchange contracts- not designated as hedges <sup>(2)</sup>		4	99	
Currency options	2			
Equity derivatives - fair value hedges				19
Equity options	1			
Other options <sup>(3)</sup>	1			
<b>Total current</b>	<b>9</b>	<b>10</b>	<b>115</b>	<b>34</b>
<b>Total</b>	<b>10</b>	<b>67</b>	<b>126</b>	<b>156</b>

(\*) First Application of IAS 32 and 39 starting with January 1, 2005.

(1) The notional principal amount of the outstanding interest rate swap contracts at December 31, 2005 was 1,257 million (December 31, 2004: 195 million) of which 729 million were long term contracts and 528 million were short term contracts (less than 3 months) concerning French commercial paper. At December 31, 2005, the fixed interest rates vary from 2.12% to 6.11% (at December 31, 2004, 4.74% to 6.11%) and the floating rates are based on EONIA, \$-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 taken in income.

(3) Option to purchase an equity participation 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 mark to market carrying values shown in the table above, that is, 10 million at December 31, 2005 and 126 million at January 1, 2005.



[Back to Index](#)**24 Borrowings****24.1 Analysis by nature**

	<u>December 31, 2005</u>	<u>January 1, 2005</u>	<u>December 31, 2004</u>
	<b>(in millions)</b>		
Debt due to financial institutions	1,046	783	<b>773</b>
Convertible/exchangeable bond (October 2000)	677	638	<b>611</b>
Convertible/exchangeable bond (March 2002)	12	604	<b>600</b>
Convertible/exchangeable bond (September 2004)	382	320	<b>367</b>
Bank overdrafts	123	29	<b>29</b>
Other financial debt <sup>(2)</sup>	81	177	<b>61</b>
Accrued interest <sup>(1)</sup>	1		<b>60</b>
<b>Total non-current</b>	<b>858</b>	<b>1,540</b>	<b>1,597</b>
<b>Total current</b>	<b>1,464</b>	<b>1,011</b>	<b>904</b>
<b>Total</b>	<b>2,322</b>	<b>2,551</b>	<b>2,501</b>

(1) At December 31, 2004 accrued interest included 48 million for the premium due at maturity on the October 2000 convertible bond which was recorded under French GAAP as financial expense over the bond duration as well as 12 million in accrued interest due to the coupons of the convertible bonds. Under IFRS the effective interest rate is used and the difference between the effective rate and the coupon paid on the bond is added to the principal amount of the bonds.

(2) Includes minority interests having a put on Thomson which is reclassified to debt for an amount of 36 million as of December 31, 2005.

**24.2 Convertible bonds**

	<u>Currency</u>	<u>Nominal amount issued</u>	<u>Original maturity</u>	<u>Yield to Maturity (%)</u>	<u>Debt component outstanding at 31.12.05 <sup>(*)</sup></u>
	<b>(in millions)</b>				
Convertible/exchangeable bond (October 2000)	EUR	812	Jan. 1, 2006	2.75	% 677
Convertible/exchangeable bond (March 2002)	EUR	600	Jan. 1, 2008	1.00	% 12
Convertible/exchangeable bond (September 2004)	USD	500	Sept. 16, 2010	3.00	% 382

(\*) Excluding the option component.

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In October 2000, Thomson issued 11,175,385 convertible/exchangeable bonds, with a nominal value of 72.67 each, due on January 1, 2006 for an aggregate amount of 812,115,228. The number of bonds outstanding at December 31, 2005 is 8,411,832 and is explained as follows:

- in 2004, 2,350,553 convertible bonds were repurchased at an average price of 77.604 and cancelled;
- in June 2002, Thomson repurchased 413,000 bonds at an average price of 67.495. The repurchased bonds were cancelled.

The convertible/exchangeable bonds issued in October 2000, may be redeemed by bondholders for Thomson ordinary shares beginning October 11, 2001.

The bonds bear interest at a rate of 1% per annum, payable in arrears on January 1 of each year, with the first payment made on January 1, 2001. The bonds will mature and become due at a price of 79.71 per bond on January 1, 2006, unless previously converted, exchanged, redeemed or cancelled. This price is 109.69% of the original issue price resulting in a yield to maturity of 2.75%.

Each bondholder may elect to receive, in lieu of receiving payment of the principal, ordinary shares of Thomson of 3.75 par value each, at a ratio of one share for each bond, subject to adjustment upon occurrence of certain events.

The bonds are redeemable at Thomson's option at any time on or after January 1, 2004, in whole but not in part, at a price enabling the bondholder to receive a gross redemption yield equal to the gross redemption yield that would have been received at final maturity, which is 2.75%, if the share price is greater than 120% of the bond redemption price for 20 consecutive days. Thomson may also repurchase any number of bonds at any time at any price on the Paris Bourse. Bonds so repurchased will be cancelled. Issuance costs of this convertible bond (18 million) are amortized over the life of the debt instrument.

In accordance with IAS 32, issuance costs are deducted from the total bond value and the option component of the bond value is split out and accounted as equity. The deduction of issuance costs and the allocation of a portion of the proceeds to equity create a discount on issuance which is amortized to earnings over the life of the bond. The effective interest rate, including the impact of issue costs and the equity component is 7.09% per annum.

The bonds were repaid in full on January 2, 2006 for an amount of 677 million including the final coupon of 6 million.

On March 12, 2002, Thomson issued 14,814,815 convertible/exchangeable bonds, with a nominal value of 40.50 each, for an aggregate amount of 600 million. The bonds bear interest at a rate of 1% per annum, payable in arrears on January 1 of each year with the first payment made on January 1, 2003. The bonds will mature and become due at a price of 40.50 per bond on January 1, 2008, unless previously converted, exchanged, redeemed or cancelled.

The bonds are redeemable at Thomson's option at any time on or after November 1, 2003, at a price enabling the bondholder to receive the nominal value plus 1% interest for the period between the last interest payment date and the redemption if the share price is greater than 120% of the nominal price for 10 consecutive days within the 20 days before the announcement of the reimbursement. Bondholders have the option from March 12, 2002, and until 7 days preceding the reimbursement date to convert one bond against one Thomson share (existing or new shares). Bondholders, who do not exercise the conversion option before 7 days preceding the reimbursement date, will receive the nominal amount plus interest as mentioned above. If at any time the remaining bonds outstanding represent less than 10% of total bonds initially issued, the Group may also redeem at nominal value plus interest all the remaining bonds.

The bonds were also redeemable on January 1, 2005, at the option of the bondholders at a price corresponding to the nominal value plus interest for the period January 1, 2004, to December 31, 2004. Of the original 14,814,815 bonds (600 million), 14,493,324 bonds (587 million) were redeemed on January 1, 2005, at the option of bondholders.

Due to this early redemption the amount of the bonds outstanding at as of December 2005 was 13 million (of which the debt component in accordance with IFRS was 12 million).

Thomson may also repurchase any number of bonds at any time at any price on the Euronext Paris S.A. Bonds so repurchased will be cancelled.



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In accordance with IAS 32, the effective interest rate, including the impact of issue costs and the splitting out of the equity component is 7.49% per annum.

On September 16, 2004, Thomson issued 23,084 convertible/exchangeable subordinated bonds to Silver Lake Partners LLC, with a nominal value of USD 21,660 each, for an aggregate amount of USD 499,999,440 (cash flows of the bonds are denominated in a currency other than euro, Thomson functional currency). The bonds bear interest at a rate of 3% per annum in arrears on January 1 and June 30 of each year except the first interest payment which was due and paid December 31, 2004. The bonds will mature and become due at a price of USD 21,660 per bond on September 16, 2010, unless previously converted, exchanged, redeemed or cancelled. The bonds are subject to certain transfer restrictions.

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 a conversion ratio of 1,000 shares for each bond.

This conversion ratio is subject to adjustment under certain conditions. According to convertible bonds contract, the conversion ratio is 1,014.447 shares following the payment of dividends relating to 2004 period. The shares issued upon conversion or exchange are subject to certain sale restrictions.

All bonds are redeemable in cash plus accrued interest at Thomson's option at any time if less than 10% of the bonds remain outstanding or at any time after September 16, 2007, if the average of the closing share price for 10 consecutive days within the 20 days before the redemption notice as well as the closing share price on the redemption notice date times the number of shares into which a bond would be convertible both exceed 150% of the par value of a bond.

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 US dollar (and not in Thomson's functional currency) and convertible into new ordinary shares or redeemable into new shares and/or existing shares denominated in euro and/or in cash, a component of the convertible bonds had to be accounted for separately as a derivative rather than as equity. Subsequent changes in the fair value of the conversion option are charged to financial result. The value of the conversion option is accounted for within non current derivative financial instruments ( 46 million as of December 31, 2005).

Like Thomson's other convertible bonds, the issuance costs are deducted from the total initial bond value and together with the separation of the conversion option create a discount on issuance which is amortized to earnings over the life of the bonds. The effective interest rate, including the impact of the separation of the option and the issue costs is 5.70% per annum.

### **24.3 Debt due to financial institutions - Private Placement**

On June 30, 2003, Thomson issued senior notes in a total amount of USD 406 million ( 342 million at the December 31, 2005 exchange rate) that were sold privately to institutional investors in the US. This private placement consisted of three series; a series of 7-year maturity notes in an amount of USD 96 million; a series of 10-year maturity notes in an amount of USD 192 million and a series of 12-year maturity notes in an amount of USD 118 million. The notes carry fixed interest rates of 4.13%, 4.74% and 4.84%, respectively, for the 7, 10 and 12-year maturity notes. The effective interest rates of these notes taking into account the issuance costs are 4.22%, 4.81% and 4.90% respectively, for the 7, 10 and 12-year maturity notes

Thomson swapped USD 200 million of the total issue in 2003 and the remaining USD 206 million in 2005, changing the debt from fixed rate to floating rate. Thomson may, at its option, prepay at any time all, or from time to time any part, of the notes. The amount prepaid shall be allocated among all of the notes outstanding at the time in proportion to the respective unpaid principal amounts.

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On December 18, 2003, Thomson issued an additional GBP 34 million ( 50 million at the December 31, 2005 exchange rate) of senior notes with a 10-year maturity and carrying a fixed rate of 6.11%; the entire amount of these additional notes were swapped to floating rate. The effective interest rate of these notes taking into account the issuance costs is 6.14%.

**24.4 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-2 by Standard & Poors. At December 31, 2005 528 million was outstanding under this program.

**24.5 Main features of the Group's borrowings**

The table below presents the periods for which the interest rate of Thomson's interest rate sensitive borrowings are fixed following the repartition of the borrowings by maturity and by fixed or floating rate. The amounts shown are those reflected in Thomson's consolidated financial statements and include principal and accrued interest at December 31, 2005.

**Amounts at December 31, 2005 with interest rate fixed for the following periods**

	<b>Less than 1 year</b>	<b>1 year to 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
	(in millions)			
Total borrowings	1,531	473	318	2,322
Effect of interest rate swaps	392	(81)	(311)	
<b>Net</b>	<b>1,923</b>	<b>392</b>	<b>7</b>	<b>2,322</b>

**(a) Maturity**

	<b>December 31, 2005</b>	<b>January 1, 2005</b>	<b>December 31, 2004</b>
	(in millions)		
<b>Total current debt (less than one year)</b>	<b>1,464</b>	<b>1,011</b>	<b>904</b>
Between 1 and 3 years	21	817	827
Between 3 and 5 years	515	13	13
Over 5 years	322	710	757
<b>Total non-current debt</b>	<b>858</b>	<b>1,540</b>	<b>1,597</b>
<b>Total debt</b>	<b>2,322</b>	<b>2,551</b>	<b>2,501</b>

**(b) Effective interest rates**

	<b>December 31, 2005</b>	<b>January 1, 2005</b>	<b>December 31, 2004</b>
All borrowings (including impact of interest rate swaps):	4.89	% 5.51	% 2.59

*Of which convertible bonds:*

6.60      % 6.81      % 2.20      %

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[Back to Index](#)**(c) Carrying amounts and fair value of borrowings (refer to Note 25 (f))****(d) Analysis of borrowing by currency**

	<b>December 31, 2005</b>	<b>January 1, 2005</b>	<b>December 31, 2004</b>
	<b>(in millions)</b>		
Euro	1,398	1,463	1,366
US Dollar	830	837	884
Other currencies	94	251	251
<b>Total debt</b>	<b>2,322</b>	<b>2,551</b>	<b>2,501</b>

**(e) Undrawn credit lines**

	<b>December 31, 2005</b>	<b>January 1, 2005</b>	<b>December 31, 2004</b>
	<i>(in millions)</i>		
Committed, expiring in greater than one year	1,750	1,750	1,750
Uncommitted <sup>(1)</sup>	781	767	767
Receivables sales agreement in North America		147	147

(1) *The amount shown is 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's committed credit line of 1.75 billion, with a maturity in June 2010, serves as back-up to its French commercial paper program of which 528 million was outstanding as of December 31, 2005. Thomson cancelled its receivables sales agreement in North America (securitization program) in March 2005.

**(f) 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 392 million and a 46 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, 2005, Thomson is compliant with all of these covenants.

[Back to Index](#)**25 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 risks incurred in the normal course of business.

**(a) Foreign currency exposure**

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

	<u>2005</u>	<u>2004</u>
<b>Forward exchange contracts (including currency swaps)</b>		
Euro	1,229	1,873
Pound sterling	144	183
Hong Kong dollar	31	22
Mexican pesos	12	33
Singapore dollar	40	26
US dollar	599	577
Polish zloty	106	88
Other currencies	42	35
<b>Total forward purchases</b>	<b><u>2,203</u></b>	<b><u>2,837</u></b>
Euro	(813	) (785
Canadian dollar	(19	) (52
Pound sterling	(58	) (152
Japanese yen	(25	) (29
US dollar	(1,099	) (1,561
Polish zloty (*)	(120	) N/A
Other currencies	(75	) (159
<b>Total forward sales</b>	<b><u>(2,209)</u></b>	<b><u>(2,738)</u></b>
<b>Currency options contracts purchased</b>		
Put US dollar/Call Euro	75	
<b>Total</b>	<b><u>75</u></b>	
Deferred hedging gains (losses) related to anticipated transactions	<b><u>3</u></b>	<b><u>(2)</u></b>

(\*) *Included in Other currencies in 2004.*

In order to match the currencies that Thomson borrows with the currencies that are lent to affiliates the corporate treasury enters into currency swaps primarily to convert euro borrowings into US dollar which are lent to the Group's US affiliates. At the December



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31, 2005 exchange rate there was a mark to market currency loss on these swaps of 4 million. This amount is recognized in the Group's financial result as an exchange loss and offsets the exchange gain on the revaluation in Euro of inter-company loans and advances in foreign currency made by treasury. In the balance sheet the mark to market value of these swaps is recognized in Financial Derivatives - Liabilities and offsets the increase in the Euro value of the foreign currency inter-company loans and advances.

**(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 US dollar versus the euro on the Group's sales, on its Profit from continuing operations before tax and financial result and on the currency translation adjustment component of equity.

	<u>Transaction</u>	<u>Translation</u>	<u>Total</u>
	(in millions)		
Sales	3	29	32
Profit from continuing operations before tax and financial result	2		2
Equity impact (Cumulative translation adjustment)			15

**(c) Interest rate exposure**

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

	<u>December 31, 2005</u>						
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Thereafter</u>	<u>Total</u>
	(in millions)						
Cash and cash equivalents - floating rate							<b>996</b>
<b>Financial debt:</b>							
Floating rate	1,464	3	6		54		<b>1,527</b>
Fixed rate			13	1	459	322	<b>795</b>
Interest rate swaps, from floating to fixed <sup>(1)</sup>				337			<b>337</b>
Interest rate swaps, from fixed to floating <sup>(1)</sup>	528				81	311	<b>920</b>
Caps, fixed rate				337			<b>337</b>

(1) US dollar/euro = 0.84331.

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		December 31, 2004						
		2005	2006	2007	2008	2009	Thereafter	Total
		<b>(in millions)</b>						
Cash and cash equivalents	floating rate	1,848						<b>1,848</b>
<b>Financial debt:</b>								
	Floating rate	904		160			44	<b>1,108</b>
	Fixed rate		664	3	13		713	<b>1,393</b>
	Interest rate swaps, from floating to fixed <sup>(2)</sup>							
	Interest rate swaps, from fixed to floating <sup>(2)</sup>						195	<b>195</b>
	Caps, fixed rate	37						<b>37</b>

(2) US dollar/euro = 0.733030.

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

	December 31, 2005	January 1, 2005	December 31, 2004
<b>(in millions)</b>			
<i>Interest received:</i>			
Fixed rate	17	10	10
Floating rate			
<i>Interest paid:</i>			
Fixed rate			
Floating rate	(16)	(6)	(6)
<b>Net interest</b>	<b>1</b>	<b>4</b>	<b>4</b>

In 2005, the Group entered into several interest rate swap transactions to convert a portion of its USD debt from fixed to floating rate (3 month LIBOR):

- its 10-year senior notes in the amount of USD 110 million;
- and its 7-year senior notes in the amount of USD 96 million.

These swap transactions are accounted for under hedge accounting treatment in accordance with IFRS.

In addition, the Group entered into USD 400 million of 3 year interest rate swaps (with January 2, 2006 start date), under which Thomson receives three month USD LIBOR and pays twelve month USD 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 financial result. At December 31, 2005 there was a marked to market gain on these swaps of 1 million which was taken in financial result.

Also in 2005, the Group starting issuing French commercial paper with short term maturities of up to 3 months. The commercial paper is issued at the one month euro swap rate plus margin and swapped to EONIA. The Group marks to market these swaps and takes the gain or loss in financial result. At December 31, 2005 there was 528 million in such swaps outstanding with a mark to market valuation of 0.06 million.



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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 USD debt, and 6 month GBP-LIBOR for GBP one):

- its 12-year senior notes in an amount of USD 118 million;
- its 10-year senior notes in the amount of USD 82 million;
- and its 10-year senior notes in the amount of GBP 34 million.

These swap transactions are accounted for under hedge accounting treatment in accordance with IAS 39.

In 2002 Thomson bought an interest rate cap that provided that until 2005 Thomson will receive the difference between 3 month USD LIBOR and the cap rate on a nominal amount of USD 50 million if three month USD 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 financial result over the period 2002-2004.

The average interest rate on the Group's consolidated debt is as follows:

	<u>2005</u>	<u>2004</u>	
Average interest rate on borrowings	5.07	% 2.74	%
Effective interest rate after interest rate hedging	5.04	% 2.60	%
Effective interest rate after currency swaps and interest rate hedging	5.33	% 2.21	%
The effective weighted average interest rate in 2005 (including interest rate hedging) on the Group's consolidated deposits was 2.31% (1.41% in 2004).			

The percentage of the Group's average 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.

	<u>2005</u>	<u>2004</u>	
	(in millions)		
Average debt	2,247	2,302	
Percentage at floating rate	71	% 30	%
The Group's average deposits in 2005 amounted to 952 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 6 million.

[Back to Index](#)**(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.

**(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:**

Counterpart's rating (according to Standard & Poor's)	2005	2004	
	_____	_____	_____
A-1+	95.6	%	91.3 %
A-1	3.8	%	2.0 %
A-2	0.6	%	6.7 %
<b>Total</b>	_____	_____	_____
	<b>100.0</b>	<b>%</b>	<b>100.0 %</b>
	_____	_____	_____

All significant cash deposits are maintained with rated financial institutions. In addition an amount of 7 million was invested in mutual funds as of December 31, 2005 and accounted for in the line Marketable securities .

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

**Cash deposit:**

Counterparty s rating (according to Standard & Poor s)	2005		2004	
A-1+	77.9	%	44.8	%
A-1	17.6	%	6.2	%
A-2	2.4	%	2.0	%
A-3			1.1	%
B	0.1	%	2.6	%
BB+	0.4	%		
Money Market funds			42.8	%
Non rated financial institutions	1.6	%	0.5	%
<b>Total</b>	<b>100.0</b>	<b>%</b>	<b>100.0</b>	<b>%</b>

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 1,003 million at December 31, 2005. 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 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 16.

For the fair value of financial derivatives see Note 23.

	December 31, 2005		January 1, 2005		December 31, 2004	
	Net book value	Fair market value	Net book value	Fair market value	Net book value	Fair market value
	(in millions)					
<b>Non-current borrowings</b>						
Convertible bonds	387	382	963	1,170	1,039	1,170
Other borrowings	471	450	577	585	558	566

[Back to Index](#)**26 Reserves for post-employment benefits****26.1 Summary of the benefits**

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	<u>          </u>	<u>          </u>
	<b>(in millions)</b>	
Pension benefit plan	494	494
Medical post-retirement benefits	445	356
	<u>          </u>	<u>          </u>
<b>Total reserves for post-employment benefits</b>	<b>939</b>	<b>850</b>
	<u>          </u>	<u>          </u>
<i>Of which non-current</i>	877	785
<i>Of which current</i>	62	65
	<u>          </u>	<u>          </u>

Thomson Group provides various types of pension and medical postretirement benefits to employees. The type of benefits offered to an individual employee is related to local legal requirements as well as operating practices within subsidiaries. These plans are either defined-contribution, defined-benefit or multi-employer plans.

**(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 increased by the return on investment. The pension costs of these plans, corresponding to the contributions paid, are charged in the income statement. In 2005, the total contributions paid by Thomson amounts to 44 million.

**(b) Defined benefit plans**

These plans mainly cover pension plans, retirement indemnities and medical post-retirement benefits.

Pension benefits

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.

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In the US, Thomson Inc provides to employees a postretirement 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 opened to newcomers since 2003.

**(c) Multi-employer plan**

One of Thomson subsidiaries in Netherlands takes part in the multi-employer defined benefits plan Metalektro. 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.

**26.2 Analysis of the reserves for post-employment benefits**

	Pension plan benefits		Medical Postretirement benefits		Total benefits	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	(in millions)					
<b>Opening provision</b>	<b>494</b>	<b>483</b>	<b>356</b>	<b>371</b>	<b>850</b>	<b>854</b>
Net Periodic Pension Cost	33	65	24	20	57	85
Cash usage	(56 )	(55 )	(17 )	(15 )	(73 )	(70 )
Change in perimeter <sup>(1)</sup>	(26 )	(7 )			(26 )	(7 )
Reclassification in held for sale <sup>(2)</sup>	(7 )				(7 )	
Actuarial (gains) losses recognized in SORIE <sup>(3)</sup>	40	15	28	8	68	23
Currency translation adjustment	16	(7 )	54	(28 )	70	(35 )
<b>Closing provision</b>	<b>494</b>	<b>494</b>	<b>445</b>	<b>356</b>	<b>939</b>	<b>850</b>

(1) Change in perimeter relates to (i) the disposal of Thomson tube plants in Italy and Poland and its marketing and sales business and (ii) the acquisition of Thales Broadcast & Multimedia, mainly.

(2) Refer to Note 11.

(3) Statement of recognized income and expense.

[Back to Index](#)**Reimbursement right recognized as an asset**

Thomson recognized as a separate asset certain reimbursement rights in relation with its medical postretirement 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, 2005 and December 31, 2004, the carrying value of this asset amounts to 65 million and 43 million, respectively and is posted in the caption other non-current asset .

	<b>Medical post-retirement benefits</b>	
	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>	
<b>Fair value at the beginning of the year</b>	<b>43</b>	<b>43</b>
Net periodic costs	5	4
Actuarial (gains) losses recognized in SORIE (*)	10	
Currency translation adjustment	7	(4 )
<b>Fair value at the end of the year</b>	<b>65</b>	<b>43</b>

(\*) *Statement of recognized income and expense.*

**(a) Analysis of the change in benefit obligation**

	<b>Pension benefits</b>		<b>Medical post-retirement benefits</b>		<b>Total benefits</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(in millions)</b>					
<b>Benefit obligation at the beginning of the year</b>	<b>(668 )</b>	<b>(699 )</b>	<b>(342 )</b>	<b>(353 )</b>	<b>(1,010 )</b>	<b>(1,052 )</b>
Current service cost	(19 )	(24 )	(4 )	(4 )	(23 )	(28 )
Financial component of benefits	(32 )	(35 )	(22 )	(22 )	(54 )	(57 )
Amendment		(5 )				(5 )
Business combination/Disposal (1)	26	9			26	9
Plan participants contribution	(1 )	(1 )	(7 )		(8 )	(1 )
Curtailment/settlement	49	47		3	49	50
Actuarial gain (loss)	(41 )	(21 )	(28 )	(8 )	(69 )	(29 )
Benefits paid	39	45	24	15	63	60
Currency translation adjustment	(34 )	16	(52 )	27	(86 )	43
<b>Benefit obligation at the end of the year</b>	<b>(681 )</b>	<b>(668 )</b>	<b>(431 )</b>	<b>(342 )</b>	<b>(1,112 )</b>	<b>(1,010 )</b>
<i>Benefits obligation wholly or partly funded</i>	<i>(294 )</i>	<i>(270 )</i>			<i>(294 )</i>	<i>(270 )</i>
<i>Benefit obligation wholly unfunded</i>	<i>(387 )</i>	<i>(398 )</i>	<i>(431 )</i>	<i>(342 )</i>	<i>(818 )</i>	<i>(740 )</i>

(1) *In 2005, the business combinations mainly relate to the disposal of the Tubes business and the acquisition of Thales Broadcast & Multimedia.*

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[Back to Index](#)**(b) Analysis of the change in the fair value of plan assets**

	Pension benefits		Total benefits	
	2005	2004	2005	2004
	(in millions)			
<b>Fair value at the beginning of the year</b>	<b>179</b>	<b>221</b>	<b>179</b>	<b>221</b>
Expected return on plan assets	13	12	13	12
Actuarial gains (losses) recognized in SORIE (*)	1	4	1	4
Employer contribution	26	16	26	16
Plan participant contribution	1	1	1	1
Curtailed/settlement	(47)	(60)	(47)	(60)
Business combination/disposals		(2)		(2)
Benefits paid	(9)	(6)	(9)	(6)
Currency translation adjustment	19	(7)	19	(7)
<b>Fair value at the end of the year</b>	<b>183</b>	<b>179</b>	<b>183</b>	<b>179</b>

(\*) *Statement of recognized income and expense.*

Medical postretirement benefits plans are wholly un-funded.

**(c) Reconciliation of the reserve recognized**

	Pension benefits		Medical Post-retirement benefits		Total benefits	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	(in millions)					
<b>Benefit obligation</b>	<b>(681)</b>	<b>(668)</b>	<b>(431)</b>	<b>(342)</b>	<b>(1,112)</b>	<b>(1,010)</b>
Fair value of plan assets	183	179			183	179
<b>Funded status (I)</b>	<b>(498)</b>	<b>(489)</b>	<b>(431)</b>	<b>(342)</b>	<b>(929)</b>	<b>(831)</b>
Unrecognized prior service cost (II)	(3)	(5)	(14)	(14)	(17)	(19)
Reclassification for Held for Sale (*) (III)	7				7	
<b>Reserve for post-employment benefits (III)</b>						
<b>= (I)+(II)+(III) (**)(***)</b>	<b>(494)</b>	<b>(494)</b>	<b>(445)</b>	<b>(356)</b>	<b>(939)</b>	<b>(850)</b>
Prepayment and reimbursement rights recognized as an asset (***)			65	43	65	43
<b>Net pension Accruals (***)</b>	<b>(494)</b>	<b>(494)</b>	<b>(380)</b>	<b>(313)</b>	<b>(874)</b>	<b>(807)</b>

(\*) *Refer to Note 11.*(\*\*) *As Thomson has adopted the revised IAS19, all actuarial gains and losses are recognized in the SORIE, there are no more unrecognized actuarial gains or losses.*

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(\*\*\*) Thomson recognized separately reimbursement rights related to certain of its postretirement medical plan in the United States as a separate assets as required by IAS 19 revised in an amounts of 65 million and 43 million as of December 31, 2005 and 2004, respectively. This asset is posted in other non-current assets.

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[Back to Index](#)**(d) Actuarial gain and losses**

	<u>2005</u>		<u>2004</u>
	(in millions)		
Opening cumulative amount of actuarial gain and losses recognised in SORIE	(23	)	
Actuarial gain and losses of the year	(58	)	(23
<b>Closing cumulative amount of actuarial gain and losses recognised in SORIE</b>	<b>(81</b>	<b>)</b>	<b>(23</b>

**26.3 Elements of the income statement**

Total expense for pensions and other benefits for the years ended December 31, 2005 and 2004 is detailed as follows:

	<u>Pension benefits</u>		<u>Medical post-retirement benefits</u>		<u>Total benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(in millions)					
Service cost (*)	(19	)	(24	)	(4	)
Financial component of benefits (**)	(32	)	(35	)	(22	)
Expected return on plan assets (**)	13	12			13	12
Amortization of prior service costs		(7	)	2	2	(5
Effect of curtailment	5	(8	)	4	5	(4
Effect of settlement		(3	)			(3
<b>Total Net Periodic Pension Cost</b>	<b>(33</b>	<b>)</b>	<b>(65</b>	<b>)</b>	<b>(24</b>	<b>)</b>
	<b>(20</b>	<b>)</b>	<b>(57</b>	<b>)</b>	<b>(85</b>	<b>)</b>
Service costs on reimbursement rights			2	2	2	2
Financial components on reimbursement rights (**)			3	2	3	2
<b>Net Pension costs</b>	<b>(33</b>	<b>)</b>	<b>(65</b>	<b>)</b>	<b>(19</b>	<b>)</b>
	<b>(16</b>	<b>)</b>	<b>(52</b>	<b>)</b>	<b>(81</b>	<b>)</b>

(\*) of which 1 million is posted in Profit (loss) from discontinued operations in 2005.

(\*\*) of which 29 million and 35 million, net, are posted in Income from continuing Operation (in financial result).

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

**26.4 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 14 million and 16 million for the year ended 2005 and 2004 respectively.

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

	2005		2004	
	Allocation of plan assets	Allocation of the fair value of plan assets	Allocation of plan assets	Allocation of the fair value of plan assets
Equity securities	55	% 101	58	% 104
Debt securities	45	% 82	39	% 70
Other			3	% 5
<b>Total</b>	<b>100</b>	<b>% 183</b>	<b>100</b>	<b>% 179</b>

### 26.5 Information by geographic area

The following information summarizes (a) the reserve for employee benefits, (b) the benefit obligations, (c) the fair value of assets and (d) the unrecognized benefit obligation by geographic area.

#### (a) Reserve for employee benefits

	2005	2004
	(in millions)	
<b>Pension plan (1)</b>		
NAFTA(2)	105	80
Germany	293	292
France	74	67
Other countries (2)	22	55
<b>Sub-total</b>	<b>494</b>	<b>494</b>
<b>Medical post-retirement benefits</b>		
NAFTA(2)	445	356
<b>Total reserves for employee benefits</b>	<b>939</b>	<b>850</b>

(1) Pension plans in France and Italy relate to retirement indemnities.

(2) NAFTA includes the US, Canada and Mexico. Other countries mainly relate to United Kingdom.

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[Back to Index](#)**(b) Actuarial present value of benefit obligations**

	Pension benefits		Medical post-retirement benefits		Total benefits	
	2005	2004	2005	2004	2005	2004
	(in millions)					
<b>Present value of benefit obligation</b>						
NAFTA affiliates	(221 )	(208 )	(431 )	(342 )	(652 )	(550 )
German affiliates	(300 )	(292 )			(300 )	(292 )
French affiliates	(71 )	(60 )			(71 )	(60 )
Other affiliates	(89 )	(108 )			(89 )	(108 )
<b>Total</b>	<b>(681 )</b>	<b>(668 )</b>	<b>(431 )</b>	<b>(342 )</b>	<b>(1,112 )</b>	<b>(1,010 )</b>

**(c) Fair value of plan assets**

	Pension benefits		Medical post-retirement benefits		Total benefits	
	2005	2004	2005	2004	2005	2004
	(in millions)					
<b>Present value of benefit obligation</b>						
NAFTA affiliates	116	126			116	126
German affiliates						
French affiliates						
Other affiliates	67	53			67	53
<b>Total</b>	<b>183</b>	<b>179</b>			<b>183</b>	<b>179</b>

The Group estimates that cash outflows related to pension and Medical post-retirement benefits plans amounted to 35 million in 2006, broken down as follow:

27 million for our pension plans in the US;

8 million for our pension plan in the UK.

**(d) Summary of unrecognized obligations to be amortized**

	Pension benefits		Medical post-retirement benefits		Total benefits	
	2005	2004	2005	2004	2005	2004
	(in millions)					
<b>Unrecognized actuarial prior service (cost) gain</b>						
NAFTA affiliates			(14 )	(14 )	(14 )	(14 )
German affiliates						

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French affiliates	(3	)	(5	)			(3	)	(5	)
Other affiliates										
	<hr/>		<hr/>		<hr/>		<hr/>		<hr/>	
<b>Total unrecognized prior service (cost) gain</b>	<b>(3</b>	<b>)</b>	<b>(5</b>	<b>)</b>	<b>(14</b>	<b>)</b>	<b>(14</b>	<b>)</b>	<b>(17</b>	<b>)</b>
	<hr/>		<hr/>		<hr/>		<hr/>		<hr/>	

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[Back to Index](#)**26.6 Assumptions used in actuarial calculations**

The following table details the assumption used for determining the benefit obligation:

	Pension benefits		Medical post-retirement benefits		
	2005	2004	2005	2004	
Discount rate	4.44	% 5.13	% 5.74	% 6.00	%
Expected return on plan assets	6.38	% 6.73	%		
Average long term rate of compensation increase	3.11	% 3.14	% 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.

The average assumption rate for the increase of the health care cost pre 65/post 65 will be 7.50%/10.5% in 2006, 6.75%/9.0% in 2007, 6.0%/7.5% in 2008, 5.25%/6.0% in 2009 and 5.0%/5.0% thereafter.

The effect of a one point increase in the assumed health care cost trend rate would increase the accumulated medical post-retirement benefits as of December 31, 2005 by 40.5 million at December 31, 2005 closing rate, and the service and financial components of the 2005 post-retirement benefit expenses by 3 million at December 31, 2005 closing rate.

The effect of a one point decrease in the assumed health care cost trend rate would decrease the accumulated medical post-retirement benefits as of December 31, 2005 by 34.5 million at December 31, 2005 closing rate, and the service and financial components of the 2005 post-retirement benefit expense by 2 million at December 31, 2005 closing rate.

**27 Provisions for restructuring and other charges****27.1 Restructuring provisions**

	December 31, 2005	December 31, 2004
	(in millions)	
<b>Provision at the beginning of the year</b>	<b>76</b>	<b>95</b>
Current year expense(1)	130	820
Release of provision(1)	(17)	(19)
Usage during the period	(92)	(195)
Currency translation adjustment	7	(3)
Reclassification to Held for Sale	(34)	
Other movements(2)	(16)	(622)
<b>Provision at the end of the year</b>	<b>54</b>	<b>76</b>
<i>Of which current</i>	45	76
<i>Of which non-current</i>	9	



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(1) Restructuring costs, net of release have been posted as follow in the consolidated income statements:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	(in millions)	
Income from Continuing Operations		
Selling general and administrative expenses and others <sup>(a)</sup>	(51 )	(70 )
Income from discontinued operations <sup>(2)</sup>	(62 )	(731 )
<b>Total restructuring costs</b>	<b>(113 )</b>	<b>(801 )</b>

(a) of which:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>
	(in millions)	
Termination costs	(50 )	(59 )
Write off of assets	(1 )	(11 )
<b>Total restructuring expenses</b>	<b>(51 )</b>	<b>(70 )</b>

(2) As of December 31, 2005 and 2004, this amount includes mainly write-down of assets. All write-downs are reclassified against assets prior to disposals. The impact of this reclassification for years ended December 31, 2005 and 2004 amounts to -3 million and -601 million, respectively and is mainly included in the income from discontinued operations.

## 27.2 Other provisions

	<u>Warranty</u>	<u>Others <sup>(1)</sup></u>	<u>Total <sup>(2)</sup></u>
	(in millions)		
<b>As of January 1, 2004 <sup>(*)</sup></b>	<b>79</b>	<b>87</b>	<b>166</b>
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 )
<b>As of December 31, 2004</b>	<b>50</b>	<b>86</b>	<b>136</b>
Current period additional provision <sup>(*)</sup>	64	272	336
Release of provision	(5 )	(103 )	(108 )
Usage during the period	(63 )	(25 )	(88 )
Currency translation adjustments and other	(8 )	(6 )	(14 )
<b>As of December 31, 2005</b>	<b>38</b>	<b>224</b>	<b>262</b>

(\*) Refer to 38.3 (h) § i.

(1) For the year ended December 31, 2005, other reserves accruals are mainly related to the disposal of the Tubes plants.

(2) Split of Total provisions between non-current and current:

- as of December 31, 2004, 55 million classified as non-current and 81 million as current,
- as of December 31, 2005, 185 million classified as non-current and 77 million as current.

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[Back to Index](#)**28 Share based payments****Stock option plans and dilutive potential ordinary shares**

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:

on September 22, 2004, the board of Directors approved on a stock option plan for 574 beneficiaries. 3,599,900 options have been granted to employees and directors. Half of these options will vest on September 22, 2007 and the remaining 50% will vest on September 22, 2008. They may be exercised up to 10 years from the date of grant;

on April 19, 2005, the board of Directors approved on a new stock option plan for 93 beneficiaries from which 719,400 options have been granted to employees and directors. Half of these options will vest on April 19, 2008 and the remaining 50% will vest on April 19, 2009. They may be exercised up to 10 years from the date of grant;

on December 8, 2005, the board of Directors approved on a new stock option plan for 390 beneficiaries from which 1,993,175 options have been granted to employees and directors. Half of these options will vest on December 8, 2008 and the remaining 50% will vest on December 8, 2009. They may be exercised up to 10 years from the date of grant.

At December 31, 2005, the main characteristics of the stock option plans covered by IFRS 2 were as follows:

	<b>Plan</b>	<b>Plan</b>	<b>Plan</b>
	<b>September 22, 2004</b>	<b>April 19, 2005</b>	<b>December 8, 2005</b>
	<hr/>	<hr/>	<hr/>
<i>Number of options granted</i>	3,599,900	719,400	1,993,175
<i>Vesting date</i>	50% as of September 22, 2007	50% as of April 19, 2008	50% as of December 8, 2008
	50% as of September 22, 2008	50% as of April 19, 2009	50% as of December 8, 2009
<i>Option life</i>	10 years	10 years	10 years
<i>Exercise price</i>	16.00	20.82	17.73
<i>Estimated fair values of the options granted</i>	6.53	7.32	6.25
<i>Number of options cancelled since the beginning of the plan</i>	193,110	22,400	
<i>Number of options outstanding</i>	3,406,790	697,000	1,993,175
	<hr/>	<hr/>	<hr/>

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

	<b>Number of share options</b>	<b>Weighted Average Exercise Price (in \$)</b>
	<hr/>	<hr/>
<b>Outstanding as of January 01, 2004</b>		
Granted	3,599,900	16.0
Exercised		
Forfeited	(10,590	) 16.0
Expired		
<b>Outstanding as of December 31, 2004</b>		
<b>(with an average remaining contractual life of 9.8 years)</b>	<b>3,589,310</b>	<b>16.0</b>
	<hr/>	<hr/>
<i>Out of which exercisable</i>		
	<hr/>	<hr/>
Granted	2,712,575	18.6
Exercised		
Forfeited	(204,920	) 16.5
Expired		
<b>Outstanding as of December 31, 2005</b>		<b>17.1</b>
<b>(with an average remaining contractual life of 9.2 years)</b>	<b>6,096,965</b>	<i>(ranging from 16 to 20.82)</i>
	<hr/>	<hr/>
Out of which exercisable		
	<hr/>	<hr/>

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

In connection with the Combination Agreement with TCL Corporation (TCL Corp) 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 now employed by TTE.

The maximum amount of shares to be provided by Thomson was 545,279 and the estimated fair value of the option granted to TTE employees amounts to 15.1 at grant date.

These shares are vested progressively from August 2004 to August 2007.

#### **Stock option 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 shares are 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 amounts to 3.2 per option.



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*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 shares are 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 each option granted to *Cirpack* employees amounts to 1.8 per option.

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

	<u>Number of share options for retention plans</u>	<u>Weighted Average Exercise Price (in \$)</u>
<b>Outstanding as of January 01, 2004</b>		
Granted	403,441	0.0
Exercised		
Forfeited		
Expired		
<b>Outstanding as of December 31, 2004</b> <b>(with an average remaining contractual life of 1.5 years)</b>	<b>403,441</b>	<b>0.0</b>
<i>Out of which exercisable</i>		
Granted	3,861,756	20.5
Exercised		
Forfeited	(70,110)	0.0
Expired		
<b>Outstanding as of December 31, 2005</b> <b>(with an average remaining contractual life of 1.4 years)</b>	<b>4,195,087</b>	<b>18.8</b> <i>(ranging from 0 to 20.70)</i>
<i>Out of which exercisable</i>	<i>117,355</i>	<i>0.0</i>

#### Significant assumptions used

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

For *Inventel* and *Cirpack* retention plans, the number of options depends on future market conditions (gain capped 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.

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The inputs into the model were as follows:

	For stock options plans granted in 2005	For stock options plans granted in 2004	For TTE option plan granted in 2004	For Cirpack option plan granted <sup>(*)</sup> in 2005	For Inventel option plan granted in 2005
Weighted average share price at measurement date	18.4	16.5	15.5	17.8	21.3
Weighted average exercise price	18.6	16	0	20.2	20.7
Expected volatility	35	% 35	% N/A	24	% 21
Expected life	7 years	9 years	2 years	1 year	3 years
Risk free rate	3.6	% 4	% 4	% 2.7	% 2.8
Expected dividend yield	1.8	% 1.8	% 1.8	% 1.8	% 1.8
Fair value at measurement date	6.5	6.5	15.1	0.7	(*) 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, 2005 and the change in fair value (- 1.1 per option) is recognized 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 long term maturity stock option plan include:

- the historical volatility of Thomson's stock over the longer period available;
- adjustments to this historical volatility based on changes of 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 this year

	Year ended December 31, 2005 <sup>(*)</sup>	Year ended December 31, 2004
	(in millions)	
Employees subscription options plans	(6	) (2
Retention Plans (**)	(6	) (1
<b>TOTAL</b>	<b>(12</b>	<b>) (3</b>

(\*) The counterpart of this expense has been credited for 11 million to equity and for 1 million to liability.

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

[Back to Index](#)**Elements concerning the plans to which IFRS 2 has not been applied (granted before 7 November 2002 and/or vested as of January 1, 2005)**

The equity instruments not restated under IFRS 2 in accordance with IFRS 1 are as follows:

BASAs ( *Bons d Achat et de Souscription d Actions* ) acquired by the Group's employees who were eligible to the plan. These BASAs were entirely vested prior to December 31, 2004;  
 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.

	<b>Plan 1</b>	<b>Plan 2</b>	<b>TTE Options</b>	<b>BASA Bons d Acquisition or de Souscription d Actions</b>
Day of Grant	December 18, 2000 March 16, 2001 July 23, 2001	October 12, 2001	July 31, 2004	September 15, 2004
Number of options granted	4,018,500	3,540,300	141,838	3,100,000 (*)
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	On the day of grant (September 15, 2004)
Option life	10 years	10 years	August 31, 2004	Till June 30, 2006
Exercise price	55.90 Euros	31.50 Euros	0 Euros	16 Euros

(\*) This number corresponds only to the BASA attributed to Thomson employees in the total 12,471,369 BASA given to shareholders.

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

	Number of options	Weighted Average Exercise Price (in \$)
<b>Outstanding as of January 01, 2004</b>	<b>5,983,400</b>	<b>43.9</b>
Granted	7,008,528	15.7
Exercised	(141,838)	)
Cancelled (exchanged)	(3,972,000)	) 42.3
Forfeited	(394,010)	) 51.0
Expired		
<b>Outstanding as of December 31, 2004</b> <i>(with an average remaining contractual life of 6.3 years)</i>	<b>8,484,080</b>	<b>21.8</b>
<i>Out of which exercisable</i>	<i>1,299,000</i>	<i>49.8</i>
Granted		
Exercised		
Forfeited	(963,130)	) 39.4
Expired		
<b>Outstanding as of December 31, 2005</b> <i>(with an average remaining contractual life of 5.4 years)</i>	<b>7,520,950</b>	<b>19.5</b>
<i>Out of which exercisable</i>	<i>905,200</i>	<i>45.1</i>

## 29 Other current and non-current liabilities

	2005	2004
	(in millions)	
Non-current royalties	103	129
<b>Total other non-current liabilities</b>	<b>103</b>	<b>129</b>
Taxes payable	116	93
Current royalties	176	257
Long lived assets acquisition balance	14	64
Other	444	386
<b>Total current liabilities</b>	<b>750</b>	<b>800</b>

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**30 Payables on acquisition of companies**

As of December 31, 2004, the amount of promissory notes outstanding was 84 million (USD 115 million) of which 9 million was for accrued interest, related to the acquisition of Technicolor.

On March 16, 2005, Thomson repaid the last promissory notes for a total amount of 86.3 million (USD 115 million) of which 9.5 million (USD 12.7 million) was for accrued interest.

As of December 31, 2005, Thomson has a debt toward Thales regarding the acquisition of Thales Broadcast & Multimedia (TBM) on December 2005 for a gross amount of 138 million.

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[Back to Index](#)**31 Earnings per share**

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

	<u>2005</u>	<u>2004</u>
<b>Numerator:</b>		
Adjusted profit from continuing operations attributable to ordinary shareholders (in millions) <sup>(1)</sup>	98	333
<b>Denominator (weighted shares in thousands):</b>	<u>293,796</u>	<u>298,762</u>
<i>Of which</i>		
BASA s	1,964	299
Silverlake convertible (September 2004)	23,417	6,704
Cirpack and Inventel options (weighted)	924	
Other stock options	830	139
Other convertible		<u>17,973</u>

<sup>(1)</sup> Profit from continuing operations is adjusted by the following items:

	<u>2005</u>	<u>2004</u>
	(in millions)	
<b>Profit from continuing activities</b>	<u>176</u>	<u>324</u>
<b>Profit from continuing activities attributable to ordinary shareholders</b>	<u>175</u>	<u>325</u>
Potential interest payable on subordinated note	(5 )	
<b>Profit from continuing activities attributable to ordinary shareholders for basic earnings per share</b>	<u>170</u>	<u>325</u>
Cancellation of the fair value gain on the derivative element of the Silverlake convertible bond and of the interests expensed in the period	(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 )	
<b>Adjusted profit from continuing activities attributable to ordinary shareholders for diluted earnings per share</b>	<u>98</u>	<u>333</u>

[Back to Index](#)**32 Information on employees**

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

	<b>Year ended December 31, 2005</b>	<b>Year ended December 31, 2004</b>
Europe (1)	9,435	16,609
North America	12,334	12,992
Asia (2)	7,441	12,842
Other countries (3)	3,265	6,636
<b>Number of employees in subsidiaries</b>	<b>32,475</b>	<b>49,079</b>
Number of employees in entities consolidated under the equity method	34,201	32,354
<b>Total employees</b>	<b>66,676</b>	<b>81,433</b>
<i>(1) Of which Poland</i>	<i>970</i>	<i>5,416</i>
<i>(2) Of which People's Republic of China including Hong Kong</i>	<i>6,034</i>	<i>11,030</i>
<i>(3) Of which Mexico</i>	<i>2,204</i>	<i>5,647</i>

The total Employee benefits expenses is detailed as follows:

	<b>Year ended December 31, 2005</b>	<b>Year ended December 31, 2004</b>
	<b>(in millions)</b>	
Wages and salaries	1,044	1,275
Social security costs (a)	202	299
Compensation expenses linked to share options granted to directors and employees (b)	9	2
Pension costs - defined benefit plans	52	81
Termination benefits and other long-term benefits (c)	54	61
<b>Total Employee benefits expenses (excluding defined contribution plans)</b>	<b>1,361</b>	<b>1,718</b>
Pension costs - defined contribution plans	44	N/A

(a) Includes the defined contribution expenses paid within a legal and mandatory social regime.

(b) For details refer to Note 28 on Share based payments.

(c) Include termination costs of 50 million and 59 million in 2005 and 2004 respectively. These costs were posted in restructuring expenses in the income statement (see Note 27).





[Back to Index](#)**33 Acquisition of subsidiaries, associates and investments**

	<b>Year ended</b> <b>December 31, 2005</b>	<b>Year ended</b> <b>December 31, 2004</b>
	<b>(in millions)</b>	
Inventel	(82	)
Cirpack	(40	)
ContentGuard	(20	)
Premier Retail Network	(248	)
Command Post		(11 )
Hughes Network Systems		(204 )
The Moving Picture Company	(11	) (78 )
Nextamp	(7	)
VCF Thématiques	(11	)
TTE (1)		(115 )
Other	(35	) (108 )
Videocon industries	(240	)
Technicolor	(77	) (83 )
<b>Acquisition of investments</b>	<b>(771</b>	<b>) (599 )</b>
Less cash position of companies acquired	61	13
<b>Acquisition of investments, net</b>	<b>(710</b>	<b>) (586 )</b>

(1) The 2004 negative cash flow effect on TTE is linked to the disposal of Thomson television business and the creation of TTE.

[Back to Index](#)**34 Contractual obligations and commercial commitments**

The two tables presented below provide information regarding contractual obligations and commercial commitments for the year ended December 31, 2005 for which the company is obliged to make future cash payments. These tables include firm commitments that would result in unconditional or contingent future payments, but exclude 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. No material commitment is omitted in this Note, in accordance with IFRS.

Guarantees given by entities of the Group securing debt, capital leases, operating leases or any other obligations or commitments of other entities of the Group are not disclosed as the related obligations are already included in the two tables below.

Contractual obligations	Amount of commitments expiring per period					
	December 31, 2004 Total	December 31, 2005 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(in millions)					
Financial debt <sup>(1)</sup>	2,501	2,322	1,464	21	515	322
<i>Of which capital lease liability</i> <sup>(2)</sup>	71	70	11	18	18	23
Payables on acquisition and disposal of companies <sup>(1)</sup>	84	312	312			
<b>Unconditional future payments</b>						
Operating leases <sup>(2)</sup>	510	438	90	140	89	119
Other <sup>(3)</sup>	68	142	92	40	8	2
<b>Unconditional purchase obligations</b>						
Financial investments <sup>(4)</sup>	16	32	31	1		
Property, plant and equipment	9	1	1			
<b>Contingent future payments</b>						
Guarantees given <sup>(5)</sup>	181	167	2	50	26	89
Other conditional obligations <sup>(6)</sup>	71	200	103	63	15	19

(1) Financial debt and payables on acquisition and disposal of companies are reported for their principal amounts 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) Operating and finance leases are described below in this Note.

(3) Other unconditional future payments relate to information technology service agreements, general sponsoring agreements entered into in the US., guarantees given for assets disposal, and other contractual advances.

(4) In December 2005, Thomson announced the acquisition of at least 33.3% of the issued and outstanding shares of Canopus Co. Ltd, a Japan-based leader in high-definition desktop video editing software, and launched a public tender offer for the remaining Canopus shares. The total value of the private transaction combined with the pending tender offer would represent approximately 91 million for 100% shares. Therefore, as of December 31, 2005 a commitment of 30 million is reported.

(5) Guarantees given for disposal of assets.

(6) Conditional obligations include contingent earn out payments related to the purchase of 20% of Technicolor Digital Cinema L.L.C. and other obligations. In 2005, Thomson granted to banks of Videocon a guarantee for an amount of 59 million, and reciprocally the Group received from Videocon a guarantee for the same amount ( 59 million).

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Commercial commitments	Amount of commitments expiring per period					
	December 31, 2004 Total	December 31, 2005 Total	Less than 1 year	> 1 and =< 3 years	> 3 and =< 5 years	After 5 years
	(in millions)					
<b>Unconditional future payments</b>						
Royalties <sup>(1)</sup>	1	1	1			
Commercial purchase obligations <sup>(2)</sup>	165	129	85	37	7	
<b>Contingent future payments</b>						
Guarantees given:						
- to suppliers	25	24	15	8		1
- for legal court proceedings and custom duties <sup>(3)</sup>	65	62	24	8	1	29
- other <sup>(4)</sup>	19	39	34	2	2	1
<b>Total</b>	<b>109</b>	<b>125</b>	<b>73</b>	<b>18</b>	<b>3</b>	<b>31</b>
Standby letters of credit <sup>(5)</sup>	68	79	79			
Other commercial commitments	10	8	2	6		

(1) Royalties to be paid for which future amounts are fixed. Royalties to be paid for which the amount is based on a per unit basis are not included, except if a fixed minimum amount will be charged. These are mainly related to licensing fee agreements.

(2) Include commitments to buy advertising space for 56 million in its cinema sale house activity.

(3) These guarantees comprise:

- guarantees for customs duties amount to 43 million and comprise mainly duty deferment guarantees, required by the customs administration to benefit from a derogatory customs regime. Imported goods are normally taxed when they enter the territory. In the case of regular import flows, customs may grant a derogatory 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;
- the Group also grants to customs administrations various operation guarantees to exempt from duties goods transiting through custom 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;
- guarantees given for legal court proceedings amount to 19 million, including a 12 million bank guarantee that Thomson gave to the Italian direct tax office in order to be allowed to pay by installment its tax debt resulting from the reassessment of its taxable income from 1993 to 1998.

(4) Under the terms of many of its long-term contracts, the Group must provide to its clients performance guarantees issued by banks. For the twelve months period ended December 31, 2005 and as of December 31, 2004 these guarantees amount to 34 million, and 9 million respectively, mainly related to its broadcast activities.

(5) Standby letters of credit relate mainly to guarantees in favor of suppliers.

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Commitments related to financial instruments held by the Group generate both future cash payments and receipts. Therefore they have not been disclosed in the two tables 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.

	<b>December 31, 2005</b>	<b>December 31, 2004</b>
	(in millions)	
Currency swaps	1,544	1,581
Forward exchange contracts	665	1,157
Interest rate swaps	1,257	195
Metals hedging contracts		8
Foreign exchange options	74	
<b>Total commitments given</b>	<b>3,540</b>	<b>2,941</b>
Currency swaps	1,536	1,680
Forward exchange contracts	667	1,157
Interest rate swaps	1,257	195
Metals hedging contracts		8
Foreign exchange options	75	
<b>Total commitments received</b>	<b>3,535</b>	<b>3,040</b>

Guarantees and commitments received amount to 61 million and 2 million as of December 31, 2005 and as of December 31, 2004, respectively.

[Back to Index](#)**Operating and finance leases**

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

	At December 31, 2005		At December 31, 2004	
	Finance leases <sup>(1)</sup>	Operating leases	Finance leases <sup>(1)</sup>	Operating leases
	(in millions)			
2005			16	99
2006	11	89	14	78
2007	9	77	13	61
2008	9	63	13	46
2009	9	47	7	41
2010	9	41	2	
After 5 years	23	121	6	185
<b>Net present value of minimum commitments</b>	<b>70</b>	<b>438</b>	<b>71</b>	<b>510</b>
Effect of discount	13		13	
<b>Total minimum future lease payments</b>	<b>83</b>	<b>438</b>	<b>84</b>	<b>510</b>

(1) Included in borrowings.

**Significant finance leases**

The two main finance leases relate to the Services Division ( 46 million in Mexico and 18 million in the UK).

**Significant operating leases**

In 2000, two leases were contracted related to the sales of office buildings in Boulogne and Indianapolis and are accounted for as operating leases:

Thomson S.A. sold an office building located in Boulogne-Billancourt, France for 91 million ( 89 million net of costs) on February 29, 2000. The building was leased back from the purchaser for a six-year period. The lease requires Thomson S.A. to pay customary operating and repair expenses and to observe certain operating restrictions and covenants. In 2005 the lease has been extended for a three-year period additional to the initial lease term;

Thomson, Inc. sold a US. office building (administration and technical services buildings) in March 2000 for 57 million net of costs. The buildings were leased back from the purchaser for a twelve-year period. The lease requires Thomson, Inc. to pay customary operating and repair expenses and to observe certain operating restrictions and covenants. The lease contains renewal options at the end of the initial lease period.

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## **35 Contingencies Legal Proceedings**

In the normal course of the business, the Group is involved in legal proceedings and is subject to tax, customs and administrative regulation. The Group's general policy is to accrue a reserve when a risk of an obligation to a third party is identified, the outcome of which may result in a potential liability that can be reasonably estimated.

### **U.S. Customs Service Investigation**

In January 1998, a grand jury investigation was initiated by the U.S. Attorney's Office in Baltimore, Maryland. This investigation was conducted by the U.S. Department of Justice relating to the transfer pricing used in the importation of picture tubes by Thomson, Inc. from an Italian subsidiary of the Group between 1993 and June 1998. In October 2002, the U.S. government informed the Company that it has declined to prosecute the grand jury case.

A civil investigation was also initiated by the U.S. Customs Service ( U.S. Customs ), which first issued pre-penalty notices on December 21, 1998 alleging that certain subsidiaries of the Group and five of its employees intentionally undervalued television tubes imported by the Group from the Italian affiliate. In January 1999, all actions with respect to the pre-penalty notices were suspended in exchange for a series of waivers of the statute of limitations extending through September 2005.

On December 21, 2004, a penalty notice was issued by the U.S. Customs that withdrew allegations of fraud and any action on years 1997 and 1998, also indicating that no penalty should be issued against individual officers and employees of Thomson. In settlement discussions subsequent to the issuance of the penalty notice, Thomson made an offer of compromise (without admitting or denying liability) representing payment of duties in the amount of \$5.6 million. U.S. Customs accepted the offer on June 23, 2005, and the case is now closed.

### **Italian tax litigation**

The Italian Guardia di Finanza tax police conducted a tax verification of the Italian subsidiary of the Group, Videocolor S.p.A. 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 1.35 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 4.2 million and (ii) tax penalties amounting to 4.2 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 and the judgment has been fixed for April 6, 2006.

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 3.5 million and 1.8 million, respectively and (ii) tax penalties amounting to 3.5 million and 1.8 million, respectively. Videocolor S.p.A. challenged the assessments before the competent tax jurisdiction of Frosinone on December 9, 2002, which decided,



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on November 15, 2004, to reject almost all of the assessments of the Italian Tax authorities.

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 127,000 and (ii) penalties amounting to 127,000. 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.

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

**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 of this assessment.

**Taoyuan County Former 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. and General Electric International, Inc. The complaint alleges that the defendants failed to provide employees with necessary instruction 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 TWD2.4 billion ( 61.6 million at December 31, 2005 buying 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.

**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. et al., Thomson, Inc. and Echostar Communications Corporation et al. alleging infringement with respect to three patents relating to program guide data retrieval, display, and program recordation. 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 has 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. The parties await the District Court's summary judgment ruling.

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

In December 2000, Pegasus Development Corporation and Personalized Media Communications, L.L.C. 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 all claims asserted in the litigation as unpatentable. Pegasus/PMC has initiated appeals on two of the office actions with the Board of Patent Appeals and Interferences ( BPAI ), and is expected to appeal similarly the remaining rulings. If the BPAI rejects the appeals, Pegasus/PMC has the right to appeal to the U.S. Federal Circuit Court of Appeals.

### **Parental Guide of Texas**

In December 2000, Parental Guide of Texas, Inc. filed suit against Thomson Inc. and numerous other consumer electronics manufacturers in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging infringement of a patent which relates to inhibiting the intelligible output of possibly undesirable sound and visual events of a television program. In October 2002, Thomson Inc. entered into a Release and License Agreement with Parental Guide of Texas Inc. whereby the Company agreed to license Parental Guide's V-Chip patents. The amount to be paid by Thomson was contingent upon the amount, if any, of the litigation royalty established by Parental Guide in the lawsuit. Thomson Inc. contended that all of the other defendants settled prior to trial and that it did not owe Parental Guide any further license payments. On February 7, 2003, Parental Guide filed suit in the U.S. District Court for the Eastern District of Texas alleging that Thomson Inc. was in breach of the Release and License Agreement. In March 2004, Parental Guide and Thomson Inc. each filed summary judgment motions contending respectively that as a matter of law it should prevail in the lawsuit. On January 20, 2005, the Court issued an Order and Final Judgment in favor of Thomson Inc. Parental Guide appealed the District Court's decision to the U.S. Federal Circuit Court of Appeals.

### **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 of 2005, the District Court granted summary judgment in favor of Thomson on the remaining two patents. TLC has appealed that ruling with the U.S. Federal Circuit Court of Appeals.

### **UGC Arbitration**

Screenvision Holdings (Europe) Limited ( Screenvision ), a joint venture between Thomson and Carlton Communications Ltd, in



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which the Thomson group holds 50%, has filed an arbitration claim at the ICC Court in May 2003 against UGC S.A., RMB International S.A. ( RMB ) and Régie Media Belge S.A. The claim was filed on the basis that UGC and RMB failed to comply with certain obligations under the agreement for the sale of a 51% stake in an Italian cinema advertising business to Screenvision. The claim amounts to 25 million. The ICC Court's award was delivered on August 19, 2005. The Court acknowledges that UGC and RMB failed to manage properly their Italian subsidiary (RMB Italia SpA) and failed to cause RMB Italia SpA's management to cooperate with Screenvision. However, the ICC Court judges an absence of causal link between UGC/RMB failures and the losses incurred by Screenvision. Screenvision has lost on most of its principal claims and did not obtain any damages. Screenvision decided not to appeal.

**Antidumping 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 related 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 Customs Code. This claim is not an admission of liability. 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.

**Metabyte, Inc., versus Canal+ Technologies, S.A.**

In 2001, Metabyte, Inc. and Vivek Mehta (the plaintiffs) and Canal+ Technologies, S.A. entered into several agreements which ultimately gave Canal+ Technologies control over Metabyte Networks, Inc. ( MNI ), a company owned by plaintiffs. One of the agreements was a Put Option Agreement (POA) whereby the common shareholders of MNI could require Canal+ Technologies to purchase their shares in three Tranches. The POA specifically provided that it would only be exercisable in the event that MNI first met certain technical and financial milestones which were to be set by MNI's board and Canal+ Technologies. No milestones were ever set. In 2002, Canal+ Technologies rejected plaintiffs' attempt to exercise the put option. Plaintiffs filed suit against Canal+ Technologies in October 2002 in U.S. District Court for the Northern District of California alleging breach of contract and breach of the covenant of good faith and fair dealing. At the beginning of 2003, Thomson acquired Canal+ Technologies from Canal+ with some guarantees related to this case. The matter proceeded to trial in June 2005, resulting in a verdict in favor of Canal+ Technologies. Plaintiffs have initiated an appeal of the unfavorable jury verdict with the Ninth Circuit Court of Appeals.

**Thomson Inc. v. Praxair**

After closure of the Circleville, Ohio glass manufacturing facility in March 2004, Thomson Inc. received a letter, dated March 25, 2004, from Praxair, Inc., owner and operator of an onsite oxygen manufacturing plant constructed on the Circleville facility property in 1996, demanding assurances that Thomson's performance would be maintained for the remaining seven (7) years of the contract. Although the Circleville facility no longer uses oxygen, Praxair argues that the contract provides for the continuance of certain minimum payments and services, which over the remaining life of the contract could exceed \$14,000,000 (the net present value is estimated at \$9,850,000). On July 30, 2004, Thomson filed suit against Praxair in Cleveland, Ohio seeking a declaration from the Court that its remaining obligations under the contract, if any, are terminated. Thomson

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has also sued Praxair and its alliance partner, Corning, Inc., to recover certain damages Thomson contends it sustained as a result of certain misrepresentations which were made by Praxair/Corning concerning the operating efficiencies, benefits, and reduced costs involved in shifting production to an oxy-fueled system. Praxair has responded by filing a Counterclaim seeking a declaration that the contract continues to be valid and enforceable and seeking an award of damages to be proven at trial. On March 15, 2006 the Court issued a decision and entry granting Praxair's summary judgment motions and dismissing Thomson's claims against Praxair. The Court has also scheduled a trial on June 7, 2006 to determine the amount of damages (if any) Thomson owes Praxair for breach of the oxygen agreement.

#### **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 4,698,672 which relates to a method and apparatus for processing signals used in video compression systems including the JPEG standard. Compression systems are typically utilized in products such as digital cameras, cellular phones, printers and scanners. The Federal Trade Commission ( FTC ) has undertaken a non-public antitrust investigation of CLI and its parent, Forgent Corporation, to determine whether CLI violated the FTC Act by reason of CLI's involvement in the JPEG standard-setting process. Thomson is defending itself alone and in conjunction within a joint defence group of other defendants. In February 2005, the suit was transferred to a multidistrict proceeding in the U.S. District Court for the Northern District of California.

#### **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 arising from this site, 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.

The Group believes that the amounts reserved and the contractual guarantees provided by its contracts for the acquisition of certain production assets will enable it to reasonably cover its safety, health and environmental obligations. Potential problems cannot be predicted with certainty, however, 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 not 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.

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### **36 Related party transactions**

#### **TCL Multimedia Technology Holdings Ltd ( TCL )**

On August 10, 2005, Thomson exercised its option to convert its 33% investment in TCL-Thomson Electronics ( TTE ) into a 29.32% interest in TCL Multimedia Technology Holdings Ltd ( TCL ).

Since July 30, 2004, the date on which Thomson and TCL formed TTE, Thomson accounted for its investment in TTE, and currently accounts for its investment in TCL, using the equity method. As a consequence, TTE is considered a related party of Thomson since August 1, 2004, and TCL is considered a related party since Thomson exercised its option on August 10, 2005.

In September 2005, Thomson and TCL entered into an agreement from which Thomson sold to TCL its TV marketing and sales business in United States and EMEA (Europe, Middle East and Africa), as well as the TV Styling Services business. Following such sale, all agreements entered into between Thomson and TTE related to certain Sales & Marketing and Styling services businesses have been terminated. Agreements related to the use of our RCA® and Thomson® trademarks remain.

In the ordinary course of business, Thomson provides various products and services to TTE. These products and services comprise in particular cathode ray tubes, televisions manufactured on a sub-contractual basis by Thomson's Angers facility, licenses of certain Thomson patents and trademarks, and certain marketing and distribution services. For the five month period ended December 31, 2004 and the period ended December 31, 2005 such sales amounted to 365 million and 355 million, respectively. As of December 31, 2004 and 2005, amounts due from TTE to Thomson amounted to 106 million and 13 million respectively.

In addition, Thomson and TTE entered into a 24-month Receivable Purchase and Sale Agreement, pursuant to which Thomson purchases TTE's receivables and collects those receivables. With regard to this agreement, as of December 31, 2004 and 2005, Thomson had loans outstanding of 99 million and 57 million to TTE and recognized an amount of 4 million and 3 million as financial income for the 5 months ended December 31, 2004 and 12 months ended December 31, 2005, respectively.

#### **France Telecom and its subsidiaries ( FT )**

Since May 2004, Mr. Lombard, CEO of FT since March 1, 2005, is a Director of Thomson. In addition, from October 2, 2002 until February 27, 2005, Mr. Breton was CEO of FT and Director of Thomson and chairman of the Thomson's strategic committee. As a consequence, FT is considered a related party of Thomson since October 2002.

In the normal course of its business and based on market conditions Thomson entered into the following transactions with FT:

Thomson is a supplier of Triple Play and ADSL set top boxes and other telephone products to FT. For the year ended December 31, 2005 and 2004, such sales amounted to 153 million and 41 million, respectively. At December 31, 2005 and 2004, amounts due from FT to Thomson amounted to 55 million and 9 million, respectively;

in December 2000, Thomson entered into a telecommunications outsourcing agreement with FT (Equant), pursuant to which FT will provide all of the Group's telecommunications requirements, including voice, data and videoconferencing. The agreement is known as Thomson Infrastructure Network Operations Services ( TINOS ). On November 7, 2002, with effect as of September 1, 2002, Thomson and FT amended the TINOS agreement in order to include within its scope all of the Group's recent acquisitions. There were no significant developments for the period ended December 31, 2005.

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**Microsoft Corporation and its subsidiaries ( Microsoft )**

Henry P. Vigil, Senior Vice President of Microsoft Corporation is a member of the board of Directors of Thomson. As a consequence, Microsoft is a related party of Thomson.

Thomson sells products and services to Microsoft, including, mainly, duplication and distribution services and promotional services, optical kits and royalties. These sales amounted to 49 million and 77 million for the years ended December 31, 2005 and 2004, respectively.

At December 31, 2005 and 2004, Thomson had accounts receivable from Microsoft amounting to 17 million and 10 million, respectively.

In the context of the acquisition of 25% of the share capital of Contentguard (Note 5) completed on March 14, 2005, Thomson acquired 2,365,261 shares from Microsoft for a consideration price of USD 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 an affiliate of Thomson of more than 50% of the shares of Canopus.

**Silver Lake Partners (SLP)**

Mr Roux, SLP Managing Director, is a member of the board of directors of Thomson since September 15, 2004 and SLP is therefore assessed as a related party of Thomson since that date.

On September 16, 2004, Thomson issued convertible/exchangeable subordinated bonds to Silver Lake Partner LLC (Note 24.2).

As of December 31, 2004 and December 31, 2005, Thomson has a financial debt toward SLP amounting to 367 million (USD 500 million) and 422 million (USD 500 million), respectively.

In application of IAS 39, the above mentioned financial debt has been recognized in our consolidated balance sheet for an amount of 382 million and 367 million as of December 31, 2005 and December 31, 2004, respectively. In addition, a derivative financial instrument has been recognized in our consolidated balance sheet as a financial liability and amounted to 46 million and 122 million as of December 31, 2005 and 2004, respectively. Change in fair value of the derivative instrument is charged to financial result of the Group (note 4). For the period ended December 31, 2005, Thomson recognized a financial income of 83 million.

For the period ended December 31, 2004 and December 31, 2005, Thomson incurred interest and certain other expenses in an amount of 4 million and 15 million, respectively, toward SLP.

**Carlton Communications Plc and its subsidiaries ( Carlton )**

From March 16, 2002 until September 22, 2004 Carlton has held a 5.5% interest in the share capital of Thomson. As a consequence and for practical reason, Carlton is assessed a related party of Thomson until December 31, 2004.

In March 2001, Thomson partially financed the Technicolor acquisition (note 2) by issuing promissory notes to Carlton in the amount of 669 million (USD 600 million), based on the historical

exchange rate. Thomson incurred interest charges related to this debt of 3 million for the period ended December 31, 2004.

On May 7, 2002, the Group created a new joint venture with Carlton, Screenvision Europe, in order to purchase and operate the cinema screen advertising businesses in UGC and RTBF theatres in Europe. After the acquisition, Carlton and Thomson shared equally in the financing of Screenvision Europe's business. The debt due to Carlton by Screenvision Europe in the Group's financial statements, amounted to 18 million at December 31, 2004.

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These loans bore interest at market rates, with Screenvision Europe incurring interest expense amounting to 0.5 million for the year ended December 31, 2004.

**DIRECTV and its subsidiaries ( DIRECTV )**

DIRECTV was a shareholder of Thomson until August 21, 2002.

Eddy Hartenstein, member of the Board of Directors of Thomson, ceased to be Vice-Chairman of the Board of Directors of DIRECTV Inc on December 31, 2004. As a result, DIRECTV ceased to be a related party of Thomson on this date, and the following describes transactions with DIRECTV until December 31, 2004.

In the normal course of the business and based on market conditions, Thomson sells products to DIRECTV, mainly digital decoders and satellite receivers and services. Moreover, over the course of 2004, Thomson and DIRECTV concluded the following agreements:

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

Thomson's sales to DIRECTV amount to 374 million for the period ended December 31, 2004. Thomson also sold to retailers a significant number of digital decoders and satellite which are designed for prospective DIRECTV subscribers;

on December 31, 2004, receivables from DIRECTV amounted to 35 million.

**TSA and its subsidiaries ( TSA )**

TSA is no longer considered a related party of Thomson because Mr. Thierry Breton resigned from his position of Chairman of TSA and member of the Board of Directors of Thomson on February 27, 2005.

**Key Management Personnel Compensation**

Compensation expenses paid to board members have been approved by our shareholders meeting held on November 10, 2002. Compensation payments to board members in 2005 and 2004 for board meetings held in 2004 and 2003 amounted to 299,000 and 450,000, respectively.

In 2004 and 2005, compensation expenses paid to members of our executive committee is shown in the below table:

	<b>2005</b>	<b>2004</b>
	<hr/>	<hr/>
	<b>(in millions)</b>	
Short term employee benefits	13	13
Post-employments benefits	1	1
Termination benefits (*)	3	2
Share-based payment	1	1
	<hr/>	<hr/>
<b>Total</b>	<b>17</b>	<b>17</b>
	<hr/>	<hr/>

(\*) 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 with a termination benefits amounted to 1,515,315, together with a 422,913 benefits payment related to its six months notice period.



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### **37 Subsequent events**

On December 5, 2005 Thomson signed an agreement to acquire one third of the issued and outstanding shares of Canopus Co., Ltd, a Japan based leader in high definition desktop video editing software. The transaction was subject to Governmental Authorities authorization and successful due diligence. The purchase price (¥ 3,8 billion equivalent to 27.5 million) was paid on January 26, 2006 partially in cash and by a delivery of 821,917 Thomson treasury shares.

In parallel 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 94.31% of Canopus share capital for a total additional consideration of ¥ 8,3 billion (equivalent to 60 million using the December 31 closing exchange rate) and will consolidate this activity from this

closing date.

On January 13, 2006, Thomson acquired the network services business assets and liabilities of EDS, Convergent Media Systems. 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 US\$ 37 million (equivalent to 31 million using the December 31, 2005 exchange rate), subject to an increase by up to US\$ 7 million dependent upon the performance of the acquired company in 2006 and 2007. Thomson will consolidate this activity as of January 13, 2006.

Given the short time-lapse between these subsequent events and the date of issuance of the Group's consolidated financial statements, the amounts that will be recognized in the Group 2006 financial statements are not yet available.

### **38 Reconciliations between IFRS and French GAAP**

For the 2004 financial information, the Group applied all IFRS standards and interpretations, which are expected to be mandatory as of December 31, 2005 except for the following standards, which the Group did not elect for an earlier application:

- IAS 32 Financial instruments: disclosure and presentation . The Group applies this standard starting from January 1, 2005;
- IAS 39 Financial Instruments: recognition and measurement . The Group applies this standard starting from January 1, 2005;
- IFRS 5 Non-current assets held for sale and discontinued operations . The Group applies this standard starting from January 1, 2005.

The 2004 IFRS financial information was prepared in compliance with IFRS 1 First Time Adoption of the International Financial Reporting Standards . The general principle is the retrospective application of all standards except for the above-mentioned standards and the exemptions elected by the Group.

The relating IFRS adjustments were accounted for in the opening shareholders' equity.

In accordance with IFRS 1, the Group elected to apply the following exemptions related to the full retrospective application:

#### **(a) Business combinations**

The Group elected not to apply IFRS 3 to business combinations that have occurred prior to January 1, 2004. All acquisitions made since January 1, 2004 have been recognized in accordance with IFRS 3.

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**(b) Translation of foreign subsidiaries accounts**

In accordance with IFRS 1, 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 on the opening shareholders' equity (refer to section 38.2 (g) Cumulative translation adjustments). All cumulative translation differences for all foreign operations have therefore been deemed to be zero at the IFRS transition date. In case of subsequent disposal of these foreign subsidiaries, the related income will not include the reversal of the cumulative translation differences prior to January 1, 2004.

**(c) Valuation of tangible 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 (refer to section 38.2 (a) Property, plant and equipment § ii). 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 TTE in July 2004.

**(d) Employee benefits**

In accordance with the IFRS 1 optional exemption, the Group elected to recognize all cumulative actuarial gains and losses as of January 1, 2004 into opening retained earnings (refer to section 38.2 (i) Reserve for post employment benefits/Other

non-current assets/Other non-current liabilities). 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.

**(e) Share-based payment**

According to IFRS 1, the Group elected to apply IFRS 2 to all equity instruments granted after November 7, 2002 and for which the rights have not vested as of December 31, 2004 (refer to section 38.3 (k) Retained earnings and other reserves § i).

The following reconciliations between French GAAP and IFRS provide a quantification of the effects of the transition to IFRS and the details of the impact of the transition on:

- shareholders' equity as of January 1, 2004 and December 31, 2004 (section 38.1);
- balance sheet as of January 1, 2004 (section 38.2);
- balance sheet as of December 31, 2004 (section 38.3);
- net income for the year ended December 31, 2004 (section 38.4);
- balance sheet as of January 1, 2005 (section 38.5);
- cash-flow statement as of December 31, 2004 (section 38.6).

[Back to Index](#)**38.1 Shareholders equity as of January 1, 2004 and December 31, 2004**

	Year ended December 31, 2004				
	January 1, 2004	Net result for 2004 (1)	Other	CTA	December 31, 2004
	<b>(in millions)</b>				
<b>Shareholders equity under French GAAP</b>	<b>3,583</b>	<b>(636)</b>	<b>(171)</b>	<b>(106)</b>	<b>2,670</b>
Customer relationships	(58)	(23)		6	(75)
Restructuring costs for business combinations		(29)		2	(27)
Goodwill amortization		100		(5)	95
Consolidation scope Special purpose entities	(43)		43		
Transaction costs TTE transaction	(9)	4			(5)
Fair value of property, plant and equipment	(17)	2			(15)
Capital gain on transferred assets		12		(1)	11
Revenue recognition Licensing and patents activity	(27)	24			(3)
Rebates received		(4)			(4)
Capitalization of development projects, net of accumulated amortization	16	14			30
Employee benefits obligation	(152)	(25)	(23)	8	(192)
Share based payment		(3)	3		
Other IFRS adjustments	4	(7)		(1)	(4)
<b>Total IFRS adjustments before tax</b>	<b>(286)</b>	<b>65</b>	<b>23</b>	<b>9</b>	<b>(189)</b>
Tax effects from IAS 12 except on IFRS adjustments	(3)				(3)
Tax effect on IFRS adjustments	(14)	12		(1)	(3)
<b>Total IFRS adjustments</b>	<b>(303)</b>	<b>77</b>	<b>23</b>	<b>8</b>	<b>(195)</b>
<b>Shareholders equity under IFRS</b>	<b>3,280</b>	<b>(559)</b>	<b>(148)</b>	<b>(98)</b>	<b>2,475</b>

(1) Bridge between net loss for the year ended December 31, 2004 released in Interim IFRS transition information and the one released in the present section is disclosed in 38.4 (j).

[Back to Index](#)**38.2 Balance sheet as of January 1, 2004**

	<b>Note</b>	<b>French GAAP</b>	<b>IFRS transition impact</b>	<b>IFRS</b>
<b>(in millions)</b>				
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	a	1,474	180	1,654
Goodwill		1,100		1,100
Intangible assets	b	835	(42 )	793
Investments in associates		11		11
Investments and financial assets available-for-sale		125		125
Contract advances		205		205
Deferred tax assets	c	294	23	317
Other non-current assets	i	95	43	138
		<b>4,139</b>	<b>204</b>	<b>4,343</b>
<b>Total non-current assets</b>				
<b>Current assets:</b>				
Inventories	d	744	1	745
Trade accounts and notes receivable		1,315		1,315
Current accounts with affiliated companies		79		79
Other current assets	e	619	(36 )	583
Cash and cash equivalents		2,384		2,384
		<b>5,141</b>	<b>(35 )</b>	<b>5,106</b>
<b>Total current assets</b>				
		<b>9,280</b>	<b>169</b>	<b>9,449</b>
<b>Total assets</b>				

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Note	French GAAP	IFRS transition impact	IFRS
(in millions)			
<b>LIABILITIES, SHAREHOLDERS EQUITY AND MINORITY INTERESTS</b>			
<b>Shareholders equity:</b>			
Common stock	1,052		1,052
Treasury shares	(210	)	(210
Additional paid in capital	1,938		1,938
Other reserves	4	(4	)
Retained earnings	1,411	(911	)
Cumulative translation adjustments	(612	)	612
	<b>3,583</b>	<b>(303</b>	<b>) 3,280</b>
<b>Shareholders equity</b>	<b>9</b>		<b>9</b>
Minority interests			
<b>Total equity</b>	<b>3,592</b>	<b>(303</b>	<b>) 3,289</b>
<b>Non-current liabilities:</b>			
Borrowings	1,871	321	2,192
Reserve for post-employment benefits	653	128	781
Other provisions	32		32
Deferred tax liabilities	23	40	63
Other non-current liabilities	129	13	142
Payables on acquisition of companies	84		84
<b>Total non-current liabilities</b>	<b>2,792</b>	<b>502</b>	<b>3,294</b>
<b>Current liabilities:</b>			
Borrowings	263	(1	)
Reserve for post-employment benefits		73	73
Restructuring provisions	118	(23	)
Other provisions	174		174
Trade accounts and notes payable	1,365	6	1,371
Accrued employee expenses	183		183
Income tax payable	85		85
Other current liabilities	614	(85	)
Payables on acquisition of companies	94		94
<b>Total current liabilities</b>	<b>2,896</b>	<b>(30</b>	<b>) 2,866</b>
<b>Total liabilities, shareholders equity and minority interests</b>	<b>9,280</b>	<b>169</b>	<b>9,449</b>

The following notes explain the main adjustments to the balance sheet as of January 1, 2004:





[Back to Index](#)**(a) Property, plant and equipment**

(i) Consolidation of fixed assets related to entities previously not consolidated	193
(ii) Fair value adjustment of property, plant and equipment	(17 )
(iii) Reclassification of spare parts to fixed assets	5
Other	(1 )
	<hr/>
<b>Total impact increase in property, plant and equipment</b>	<b>180</b>
	<hr/>

(i) Under IFRS, according to SIC 12 interpretation, Special Purpose Entities (SPEs) that are controlled in substance are consolidated even if the Group has no share in their capital. Under French GAAP, these SPEs were not consolidated as of December 31, 2003 if the Group had no share in their capital. As of January 1, 2004 the Group had two special purpose entities, whose aim was to implement two synthetic leases for Thomson Display Mexicana S.A. de C.V. and for Thomson Multimedia Polska Sp.zo.o (Poland). Under IFRS, these entities have been consolidated for the first time as of January 1, 2004. The impact of this consolidation generated an adjustment of 193 million of fixed assets, 321 million of financial long-term debt and 85 million of reversal of deferred income. The opening shareholders' equity has been unfavorably impacted by 43 million. Under French GAAP these SPEs were consolidated applying the retrospective method for the first time in the 2004 financial statements. As of January 1, 2004, the consolidation of these entities became mandatory under French GAAP in accordance with the CRC 04-03 Regulation subsequent to the issuance of Article 133 on French law on Financial Security issued on August 1, 2003. Due to the change in French laws, there are no more adjustments to be made as of December 31, 2004.

(ii) As mentioned in the beginning of section 38, the IFRS 1 application related to the valuation of the tangible assets of TV activities that were transferred to TTE in July 2004 had a negative impact of 17 million on the opening net equity, which corresponds to the difference between the 128 million of assets carrying value and 111 million fair value.

(iii) Under IFRS, spare parts having more than one year of useful life are capitalized for a total amount of 5 million and depreciated according to their useful lives. Under French GAAP these items were classified as inventories.

**(b) Intangible assets**

(i) Amortization of customer relationships	(58 )
(ii) Capitalization of development projects, net	
a. Gross amount	22
b. Accumulated amortization	(6 )
	<hr/>
<b>Total impact decrease of intangible assets</b>	<b>(42 )</b>
	<hr/>

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(i) Under French GAAP, market share acquired through business combinations was not amortized. Under IFRS, this market shares corresponds to customer relationships, classified as intangible assets that meet the criteria defined by IAS 38. Acquired market share is amortized over the expected useful life. Accumulated amortization costs of customer relationships had a negative impact of 58 million on the net opening equity.

(ii) Under French GAAP, the Group's policy is to expense development costs (except software) as they are incurred. Under IFRS these costs should be capitalized when they meet criteria defined under IAS 38. The retroactive application of IAS 38 led to the recognition of an asset corresponding to the net book value of the intangible asset had IAS 38 ever been applied. This IFRS adjustment has a positive impact of 16 million on opening retained earnings as of January 1, 2004.

**(c) Deferred tax assets**

(i) Deferred tax assets on undistributed reserves	3
(ii) Deferred tax assets on IFRS adjustments	20
	<hr/>
<b>Total impact increase in deferred tax assets</b>	<b>23</b>
	<hr/>

The Group has recalculated deferred tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred tax assets and liabilities only when certain criteria are met.

(i) Unlike French GAAP, under IFRS, a deferred tax has to be accounted for on investments in associates and joint ventures, for which Thomson is not able to control the distribution of profit, and for which it is probable that the temporary difference will reverse in the foreseeable future. Consequently, 3 million deferred tax asset (mainly related to Screenvision) was recognized against opening retained earnings.

(ii) Deferred tax assets on IFRS adjustments amounted to 20 million and mainly related to impact of pension plans, retirement indemnities and other commitments. These were recognized against the opening retained earnings.

**(d) Inventories**

(i) Inventories held by vendors under Vendor Management Inventory contracts (VMI)	6
(ii) Reclassification of spare parts related to fixed assets	(5 )
	<hr/>
<b>Total impact increase in inventories</b>	<b>1</b>
	<hr/>

(i) Under French GAAP, inventories are recognized when the legal ownership is transferred to the Group. Under IFRS, some of the inventories held by vendors under Vendor Management Inventory (VMI) contracts have to be recognized by the Group because the risks and rewards of ownership and the control over the inventories are transferred to the Group. The corresponding debt amounted to 6 million as of January 1, 2004 and was recorded under trade and accounts payable.

(ii) Refer to (a) Property, plant and equipment § iii from current section.



[Back to Index](#)**(e) Other current assets**

(i) Revenue recognition on licensing activities	(27 )
(ii) Transactions costs related to TTE	(9 )
	<hr/>
<b>Total impact decrease of other current assets</b>	<b>(36 )</b>
	<hr/>

(i) Revenue from the Group's licensing and patents business activities results from licensing agreements for the non-exclusive use of patents developed or acquired by the Group. Under French GAAP, revenue was recognized as income to the prevailing period if (1) a contract was signed before the date the Group consolidated financial statements have been approved by the board of directors and if (2) the revenue recognized is earned, which means it relates to licenses used during periods prior to the date the current year accounts were signed off. According to IAS 18 such revenue is recognized when it is received and earned based on a formal agreement signed between the parties at the closing date. Accordingly, the accrued income and the IFRS opening net equity were reduced by 27 million.

(ii) In 2003, the Group engaged the services of external consultants in connection with several potential third party transactions, including principally the contribution of the manufacturing assets of its TV activity into TTE, a joint entity in which it would have a minority interest. Since the TTE transaction has not yet finalized, at December 31, 2003, external consulting costs incurred in connection with TTE amounting to 9 million were deferred under French GAAP and expensed under IFRS.

**(f) Retained earnings**

(i) Transfer of cumulative translation adjustment to retained earnings	(612 )
(ii) Impact of all other IFRS adjustments as of December 31, 2003	(303 )
Other	4
	<hr/>
<b>Total impact decrease of retained earnings</b>	<b>(911 )</b>
	<hr/>

(i) Refer to (g) Cumulative translation adjustments below.

**(g) Cumulative translation adjustments**

(i) Transfer of cumulative translation adjustments to retained earnings	612
	<hr/>
<b>Total impact increase in cumulative translation adjustments</b>	<b>612</b>
	<hr/>

(i) In accordance with IFRS 1, 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 on the opening shareholders' equity. All cumulative translation differences (amounting to 612 million) for all foreign operations have been deemed to be zero at the IFRS transition date (January 1, 2004). This reclassification has no impact on retained earnings as of January 1, 2004. In case of subsequent disposal of these foreign subsidiaries, the related income will not include the reversal of the cumulative translation adjustments prior to January 1, 2004.

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[Back to Index](#)**(h) Borrowings**

(i) Consolidation of debt related to subsidiaries previously excluded from consolidation	321
<b>Total impact increase in interest bearing borrowings</b>	<b>321</b>

(i) Refer to (a) Property, plant and equipment § i from current section.

**(i) Reserve for post employment benefits/Other non-current assets/Other non-current liabilities**

Reimbursement rights recognized as a separate asset	43
<b>Net impact increase in other non-current assets</b>	<b>43</b>
Jubilee awards reclassified in other non-current liabilities	13
<b>Net impact increase in other non-current liabilities</b>	<b>13</b>
Reserve for post employment benefits Non-current portion	128
Reserve for post employment benefits current portion	73
Restructuring provisions (refer to (j) § ii from current section)	(19 )
<b>Net impact increase in reserve for post employment benefits</b>	<b>182</b>
<b>Total impact net decrease of shareholders equity as of January 1, 2004</b>	<b>152</b>

Under IFRS, a positive effect of 43 million on opening shareholders equity has been recognized as a result of the American Medicare Act as of January 1, 2004, which was accounted for in 2004 under French GAAP.

As of January 1, 2004, the effect of IFRS adoption on reserve for post-employment benefits was a negative impact of 195 million. This impact was mainly due to the following:

- in accordance with the IFRS 1 optional exemption, 248 million of actuarial losses as of January 1, 2004 were booked against shareholders equity;
- a positive effect on opening shareholders equity of 81 million has been recognized on January 1, 2004 relating to unrecognized prior service costs resulting from changes in medical retiree plans for Americans announced prior to January 1, 2004. These amounts were deferred under French GAAP;
- the other adjustments result in a negative effect of 28 million on the opening shareholders equity mainly due to the valuation method differences and to the change of the measurement date for some plans.

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[Back to Index](#)**(j) Restructuring provisions**

(i) Reversal of provision for cumulative translation adjustment	(4 )
(ii) Reclassification restructuring provision to post employment	(19 )
	<hr/>
<b>Total impact decrease of restructuring provision</b>	<b>(23 )</b>
	<hr/>

(i) Under IFRS, no provision for cumulative translation adjustment may be recognized for liquidated entities. Therefore, as of January 1, 2004, the provision accounted for under French GAAP for an amount of 4 million was reversed.

(ii) Refer to (i) Reserve for post employment benefits from current section.

**(k) Deferred tax liabilities**

(i) Deferred tax liabilities on entities with a functional currency different from the local currency	6
(ii) Deferred tax liabilities related to other IFRS adjustments	34
	<hr/>
<b>Total impact increase in deferred tax liabilities</b>	<b>40</b>
	<hr/>

(i) Unlike French GAAP, under IFRS, a deferred tax is recorded on differences between the tax base and the carrying value of the non-monetary assets of the consolidated entities for which the functional currency differs from the local currency. Consequently, net deferred tax liabilities amounting to 6 million were recognized in the 2004 shareholders' equity.

(ii) Deferred tax liabilities on IFRS adjustments amounted to 34 million and mainly related to customer relationships amortization accounted for under IFRS. As explained in (b) Intangible assets § i from current section, under French GAAP, customer relationships were treated as market share, which were not amortized, and therefore were not subject to deferred tax.

**(l) Trade accounts and notes payable**

(i) Inventories held by vendors under VMI contracts	6
	<hr/>
<b>Total impact increase in trade accounts and notes payable</b>	<b>6</b>
	<hr/>

(i) Refer to (d) Inventories § i from current section.

**(m) Other current liabilities**

(i) Reversal of deferred income related to entities previously not consolidated	(85 )
	<hr/>
<b>Total impact decrease of other current liabilities</b>	<b>(85 )</b>
	<hr/>

(i) Refer to (a) Property, plant and equipment § i from current section.

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[Back to Index](#)**38.3 Balance sheet as of December 31, 2004**

	Note	French GAAP	IFRS transition impact	IFRS
(in millions)				
<b>ASSETS</b>				
<b>Non-current assets:</b>				
Property, plant and equipment	a	1,054	(3	) 1,051
Goodwill	b	1,242	(64	) 1,178
Intangible assets	c	964	(40	) 924
Investments in associates	d	128	132	260
Investments and financial assets available-for-sale		113		113
Contract advances		179		179
Deferred tax assets	e	282	19	301
Other non-current assets	f	96	40	136
<b>Total non-current assets</b>		<b>4,058</b>	<b>84</b>	<b>4,142</b>
<b>Current assets:</b>				
Inventories	g	569	(1	) 568
Trade accounts and notes receivable		1,180		1,180
Current accounts with affiliated companies	h	183	(40	) 143
Other current assets	i	629	(13	) 616
Marketable securities	j	58		58
Cash and cash equivalents	j	1,906	(58	) 1,848
<b>Total current assets</b>		<b>4,467</b>	<b>(54</b>	<b>) 4,413</b>
<b>Total assets</b>		<b>8,525</b>	<b>30</b>	<b>8,555</b>

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	Note	French GAAP	IFRS transition impact	IFRS
(in millions)				
<b>LIABILITIES, SHAREHOLDERS EQUITY AND MINORITY INTERESTS</b>				
<b>Shareholders equity:</b>				
Common stock		1,025		1,025
Treasury shares		(55	)	(55
Additional paid in capital	k	1,748	3	1,751
Other reserves	k		(23	) (23
Retained earnings	k	670	(795	) (125
Cumulative translation adjustment	l	(718	) 620	(98
<b>Shareholders equity</b>		<b>2,670</b>	<b>(195</b>	<b>) 2,475</b>
Minority interests		20	(2	) 18
<b>Total equity</b>		<b>2,690</b>	<b>(197</b>	<b>) 2,493</b>
<b>Non-current liabilities:</b>				
Borrowings		1,597		1,597
Reserve for post-employment benefits	m	589	196	785
Other provisions		55		55
Deferred tax liabilities	n	2	35	37
Other non-current liabilities		129		129
<b>Total non-current liabilities</b>		<b>2,372</b>	<b>231</b>	<b>2,603</b>
<b>Current liabilities:</b>				
Borrowings		904		904
Reserve for post-employment benefits	m		65	65
Restructuring provisions	o	104	(28	) 76
Other provisions	h	120	(39	) 81
Trade accounts and notes payable	p	1,221	5	1,226
Accrued employee expenses	m	165	(2	) 163
Income tax payable		60		60
Other current liabilities	q	805	(5	) 800
Payables on acquisition of companies		84		84
<b>Total current liabilities</b>		<b>3,463</b>	<b>(4</b>	<b>) 3,459</b>
<b>Total liabilities, shareholders equity and minority interests</b>		<b>8,525</b>	<b>30</b>	<b>8,555</b>



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The following notes explain the main adjustments to the balance sheet as of December 31, 2004:

**(a) Property, plant and equipment**

(i) Reclassification of tangible assets to intangible assets	(5	)
(ii) Reclassification of spare parts to fixed assets	3	
(iii) Write-off of fixed assets dedicated to specific projects	(1	)
	<hr/>	
<b>Total impact decrease of property, plant and equipment</b>	<b>(3</b>	<b>)</b>
	<hr/>	

(i) The Group has reclassified projects previously capitalized under French GAAP from tangible assets to intangible assets for a total value of 5 million.

(ii) Under IFRS, spare parts having more than one year of useful life were capitalized for a total amount of 3 million and depreciated according to their useful lives. Under French GAAP, these items were classified as inventories.

(iii) Mainly fixed assets dedicated to internal projects with a net value of 1 million were written off.

**(b) Goodwill**

(i) Reversal of amortization	89	
(ii) Restructuring cost reversal	(20	)
(iii) Reclassification of goodwill to investments in associates	(133	)
	<hr/>	
<b>Total impact decrease of goodwill</b>	<b>(64</b>	<b>)</b>
	<hr/>	

(i) Under French GAAP, goodwill was amortized on a straight-line basis over its estimated useful life (ranging from 5 to 20). In compliance with IFRS 3, goodwill is not amortized but is tested annually for impairment and when impairment indicators are present. As the Group elected to apply the IFRS 1 exemption, which allows the Group not to restate business combinations that have occurred prior to January 1, 2004 and not to change their initial recognition, the net carrying amount of goodwill arisen on these acquisitions and accounted for under French GAAP corresponds to the new gross value under IFRS as of January 1, 2004. The reversal of goodwill amortization incurred in 2004 increased net goodwill by 89 million at closing rate, corresponding to an impact of 95 million at average rate in the IFRS income statement due to currency translation adjustments.

(ii) In compliance with IFRS 3, a provision related to the costs of the closure of plants and sites is recorded as a liability of the acquiree as part of allocating the cost of the combination if and only if the restructuring plan meets the criteria defined by IAS 37 at the acquisition date. Consequently, restructuring plans of the acquirees, which were accounted for when allocating the cost of the combination under French GAAP but were not announced at the acquisition date, have been recognized as an expense under IFRS. Accordingly, in 2004, the goodwill was decreased by 20 million (at closing rate) related to restructuring costs which have been expensed under IFRS. The related impact in the IFRS income statement amounted to a charge of 29 million (at average rate), partly offset by 8 million on tax and the 1 million difference corresponding to the effect of the translation adjustments.



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(iii) Under French GAAP, goodwill on investment accounted for using the equity method is posted as other goodwill on controlled entities. Under IFRS, IAS 28 states that related goodwill shall be posted in the heading investments in associates .

**(c) Intangible assets**

(i) Amortization of customer relationships	(75 )
(ii) Capitalization of development projects	30
(iii) Reclassification from tangible assets to intangible assets	5
	_____
<b>Total impact decrease of intangible assets</b>	<b>(40 )</b>
	_____

(i) The impact of the amortization of the customer relationships under IFRS led to a 75 million decrease of the net book value, out of which:

58 million decrease corresponding to previous years amortization recorded against opening retained earnings as of January 1, 2004;

23 million decrease relating to the current year amortization charge;

and 6 million increase being a favorable impact of currency translation adjustments between closing rate and average rate.

(ii) The cumulative impact of the capitalization of the development projects is a 30 million net increase out of which:

16 million increase due to net value of development projects capitalized on periods prior to January 1, 2004;

29 million increase in gross value from development projects capitalized in 2004;

and 15 million decrease related to current year amortization charge.

(iii) Refer to (a) Property, plant and equipment § i from current section.

**(d) Investments in associates**

(i) Reclassification of goodwill to investments in associates	133
(ii) Difference in investment in TTE	(1 )
	_____
<b>Total impact increase in investments in associates</b>	<b>132</b>
	_____

(i) Refer to (b) Goodwill § iii from current section.

(ii) Under French GAAP, the value of the shares in TTE related to the allocation of the TTE transaction costs amounted to 7.6 million. Under IFRS, due to the different treatment of the transaction costs, the value allocated to the participation amounted to 6.9 million, which led to a 1 million difference between French GAAP and IFRS. Refer to section 38.4 (c) Selling, general, administrative expenses and others § iv for complete description of the transaction costs treatment.

[Back to Index](#)**(e) Deferred tax assets**

(i) Deferred tax related to IFRS adjustments	19
	<hr/>
<b>Total impact increase in deferred tax assets</b>	<b>19</b>
	<hr/>

The Group has recalculated deferred tax in accordance with IAS 12. IAS 12 allows a net presentation of deferred tax assets and liabilities only when certain criteria are met.

(i) Deferred tax assets on IFRS adjustments amounts to 19 million and relates mainly to impact of pension plans, retirement indemnities and other commitments.

**(f) Other non-current assets**

(i) Reimbursement rights recognized as a separate asset	43
(ii) Tax loss carryback receivable at discounted value	(2 )
Other	(1 )
	<hr/>
<b>Total impact increase in other non-current assets</b>	<b>40</b>
	<hr/>

(i) Refer to (m) Reserve for post employment benefits from current section.

(ii) Under IFRS, tax loss carryback receivable has been carried at present discounted value of the future net cash inflow. Under French GAAP, such receivable was measured at historical cost. This led to a 2 million decrease of other non-current assets.

**(g) Inventories**

(i) Inventories held by vendors under Vendor Management Inventory (VMI) contracts	5
(ii) Reclassification of spare parts to fixed assets	(3 )
(iii) Write-off of spare parts	(3 )
	<hr/>
<b>Total impact decrease of inventories</b>	<b>(1 )</b>
	<hr/>

(i) Under IFRS, some of the inventories held by vendors under Vendor Management Inventory contracts have to be recognized by the Group because the risks and rewards of ownership and the control over the inventories are transferred to the Group. The corresponding debt amounted to 5 million as of December 31, 2004 and was recorded under trade accounts and notes payable. Under French GAAP, these inventories were recognized later when the ownership was transferred to the Group.

(ii) Refer to (a) Property, plant and equipment § ii from current section.

(iii) Mainly related to unused spare parts written off by 3 million.

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[Back to Index](#)**(h) Current accounts with affiliated companies/Other provisions**

(i) Subsidiaries controlled but not consolidated under French GAAP	(40 )
<b>Total impact decrease of current accounts with affiliated companies</b>	<b>(40 )</b>
(i) Subsidiaries controlled but not consolidated under French GAAP	(39 )
<b>Total impact decrease of other provisions</b>	<b>(39 )</b>
	<hr/>
<b>Total impact net decrease of shareholders equity as of December 31, 2004</b>	<b>(1 )</b>
	<hr/>

(i) Under French GAAP, two immaterial subsidiaries are not required to be consolidated. Under IFRS, these subsidiaries must be fully consolidated. Intragroup balances are eliminated. Therefore, losses related to the current accounts have been eliminated, as well the provisions covering these balances. The consolidation of these entities led to a negative impact for an amount of 1 million in the 2004 IFRS income statement.

**(i) Other current assets**

(i) Accrued income	(8 )
(ii) Other rebates to be received	(4 )
(iii) Other transaction costs deferred under French GAAP	(1 )
	<hr/>
<b>Total impact decrease of other current assets</b>	<b>(13 )</b>
	<hr/>

(i) As explained on section 38.2 (e) Other current assets § i, timing differences related to recognition of revenue from the Group's licensing and patents activities had a negative impact of 8 million on accrued income and on revenues as of December 31, 2004.

(ii) Under French GAAP, some rebates received from suppliers were recorded in deduction of the costs of sales for the related period. Under IFRS, when those rebates are linked to future purchases commitments, they should be considered upfront payments on future business and spread over that future business. This was accounted for in the 2004 IFRS income statement as a negative impact for an amount of 4 million.

(iii) Other transaction costs incurred in 2004 that management estimated not probable to be finalized, amounted to 1 million and were charged to other operating expenses under IFRS but deferred under French GAAP.

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[Back to Index](#)**(j) Marketable securities/Cash and cash equivalents**

(i) Reclassification from cash and cash equivalents to marketable securities	58
	<hr/>
<b>Total impact increase in investments funds and decrease of cash and cash equivalents</b>	<b>58</b>
	<hr/>

(i) Under IFRS, marketable securities (in particular investments funds) cannot be qualified as cash equivalents regarding IAS 7 criteria because such investments could be subject to some minor risks of change in value. Such investments are classified as held for trading and categorized as financial assets at fair value through profit or loss.

**(k) Retained earnings and other reserves**

(i) Additional paid in capital	3
	<hr/>
<b>Total impact increase in additional paid in capital</b>	<b>3</b>
	<hr/>
(ii) IAS 19 revised	(23 )
	<hr/>
<b>Total impact decrease of other reserves</b>	<b>(23 )</b>
	<hr/>
(iii) Transfer of cumulative translation adjustment to retained earnings	(612 )
(iv) Impact of the IFRS adjustments on retained earnings as of January 1, 2004	(303 )
(v) Impact of the IFRS adjustments on the 2004 IFRS Income statement	77
(vi) Impact of reversing the consolidation of the special purpose entities	43
	<hr/>
<b>Total impact decrease of retained earnings</b>	<b>(795 )</b>
	<hr/>

(i) In accordance with the requirements of IFRS 2 Share-based payment, stock options granted to employees are recorded as a 3 million increase in equity with counterpart in the income statement. Refer to section 38.4 (c) Selling, general, administrative expenses and others § vii.

(ii) Refer to section (m) Reserve for post employment benefits from current section.

(iii) Refer to section 38.2 (g) Cumulative translation adjustments.

(iv) Refer to section 38.2 (f) Retained earnings § ii.

(v) Refer to section 38.4 Net income for the year ended December 31, 2004.

(vi) As explained in section 38.2 (a) Property, plant and equipment § i, unlike French GAAP, special purpose entities were consolidated under IFRS as of December 31, 2003, with a 43 million negative impact on opening retained earnings. Following changes in French laws, these SPE s were consolidated under French GAAP in 2004 with a retroactive effect as of January 1, 2004. This French GAAP adjustment was included in the statement of changes in French GAAP retained earnings as of December 31, 2004. Therefore under IFRS, the 43 million negative impact on opening retained earnings was reversed in 2004.



[Back to Index](#)**(l) Cumulative translation adjustments**

(i) Transfer of cumulative translation adjustment to retained earnings as of January 1, 2004	612
(ii) Translation adjustments related to IFRS adjustments	8
	<hr/>
Total impact increase in cumulative translation adjustments	620
	<hr/>

(i) Refer to section 38.2 (g) Cumulative translation adjustments.

(ii) The IFRS adjustment recorded in the opening balance sheet as of January 1, 2004 and in the income statement as of December 31, 2004, generated a 8 million cumulative translation adjustment between closing rate and average rate in 2004.

**(m) Reserve for post employment benefits**

Reimbursement rights recognized as a separate asset	43
	<hr/>
<b>Net impact increase in other non-current assets</b>	<b>43</b>
	<hr/>
Reserve for post employment benefits Non-current portion	196
Reserve for post employment benefits current portion	65
	<hr/>
<b>Net impact increase in reserve for post employment benefits</b>	<b>261</b>
	<hr/>
Reclassification of restructuring provisions (refer to (o) Restructuring provisions § ii)	(24 )
	<hr/>
<b>Net impact decrease of other provisions</b>	<b>(24 )</b>
	<hr/>
Accrued employee expenses	(2 )
<b>Net impact decrease of accrued employee expenses</b>	<b>(2 )</b>
	<hr/>
<b>Total impact net decrease of shareholders equity as of December 31, 2004</b>	<b>192</b>
	<hr/>

Under IFRS, a positive effect of 43 million on opening shareholders equity has been recognized as a result of the American Medicare Act .

As of December 31, 2004, the cumulative effect of IFRS adoption on shareholders equity in respect to employee benefits was a negative impact of 235 million. This impact was mainly due to the following:

a negative effect of 238 million, out of which 248 million of actuarial losses as of January 1, 2004 booked against shareholders equity and 10 million recognized in the 2004 income statement;

a cumulative positive effect of 76 million in respect of prior service costs out of which: 81 million has been recognized on shareholders equity relating to unrecognized prior service costs resulting from changes in medical retiree plans for Americans, announced prior to January 1, 2004 and 5 million recognized in the 2004 income statement;

a negative impact of 40 million was recognized in the 2004 IFRS income statements in respect of curtailments and settlements occurred in 2004;

a negative impact of 23 million related to the application of IAS 19 revised, which allows to charge directly against equity the actuarial gains and losses generated during the period. This impact is recognized directly in the retained earnings;

The other adjustments result in a negative effect of 10 million on the shareholders equity mainly due to the valuation method differences, to the change of the measurement date for some plans and to the currency translation adjustments related to the IFRS adjustments.

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[Back to Index](#)**(n) Deferred tax liabilities**

(i) Deferred tax IAS 12	4
(ii) Deferred tax on other IFRS adjustments	31
	<hr/>
<b>Total impact increase in deferred tax liabilities</b>	<b>35</b>
	<hr/>

(i) Unlike French GAAP, under IFRS, a deferred tax is recorded on differences between the tax base and the carrying value of the non-monetary assets of the consolidated entities for which the functional currency differs from the local currency. Consequently, net deferred tax liabilities amounting to 6 million were recognized in the opening retained earnings as of January 1, 2004, out of which 2 million were reversed in the 2004 IFRS Income statement.

(ii) Deferred tax liabilities on IFRS adjustments amounted to 32 million and mainly related to customer relationships amortization accounted for under IFRS. As explained in section 38.2 (b) Intangible assets § i, under French GAAP, customer relationships were treated as market share, which were not amortized. However, regarded as non-separable of the acquired entity, no deferred tax liability had been recognized, exception not existing in IFRS.

**(o) Restructuring provisions**

(i) Provisions for translation adjustment	(4 )
(ii) Reclassification restructuring provisions	(24 )
	<hr/>
<b>Total impact decrease of other provisions</b>	<b>(28 )</b>
	<hr/>

(i) Under IFRS, no provision for cumulative translation adjustment may be recognized for companies under liquidation. Therefore, the 4 million provision was reversed.

(ii) Refer to (m) Reserve for post employment benefits from current section.

**(p) Trade accounts and notes payable**

(i) Inventories held by vendors under VMI contracts	5
	<hr/>
<b>Total impact increase in trade accounts and notes payable</b>	<b>5</b>
	<hr/>

(i) Refer to (g) Inventories § i from current section.

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**(q) Other current liabilities**

(i) Royalties to be paid	(5 )
(ii) Impact deferred payment of liability	(1 )
Other	1
	<hr/>
<b>Total impact decrease of other current liabilities</b>	<b>(5 )</b>
	<hr/>

(i) As of December 31, 2004, as a result of the difference of revenue recognition between French GAAP and IFRS on licensing and patents activities, revenues related to contracts not yet signed at the closing date have been deferred under IFRS. The related contractual retrocession to co-patent owner of a part of these revenues have therefore been also deferred, generating a 5 million positive impact in the income statement and a decrease of the debt to be paid for the same amount.

(ii) Under IFRS, debt with deferred payment should be recognized at fair value at transaction date and the impact of the discounting should be recognized over the period until final payment. Such treatment led to a decrease by 1 million of the underlying liability with corresponding counterpart in revenues.

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[Back to Index](#)**38.4 Net income for the year ended December 31, 2004**

	Note	French GAAP	IFRS transition impact	IFRS 5	IFRS
<b>(in millions)</b>					
<b>Continuing operations:</b>					
Revenues	a	7,994	19	(1,977)	6,036
Cost of sales	b,i	(6,284)	(130)	1,780	(4,634)
<b>Gross margin</b>		<b>1,710</b>	<b>(111)</b>	<b>(197)</b>	<b>1,402</b>
Selling, general, administrative expenses and others	c,i	(1,898)	177	989	(732)
Research and development expense	d,i	(277)	22	51	(204)
<b>Profit from continuing operations and before tax and financial result</b>		<b>(465)</b>	<b>88</b>	<b>843</b>	<b>466</b>
Interest expense		(24)		22	(2)
Other financial income (expense)	e,i	(55)	(3)	31	(27)
<b>Financial result</b>		<b>(79)</b>	<b>(3)</b>	<b>53</b>	<b>(29)</b>
Share of income (loss) from associates	f	(3)	(18)	1	(20)
Income tax	g	(88)	10	(15)	(93)
<b>Profit from continuing operations</b>		<b>(635)</b>	<b>77</b>	<b>882</b>	<b>324</b>
<b>Discontinued operations:</b>					
<b>Loss from discontinued operations</b>	h			<b>(885)</b>	<b>(885)</b>
<b>Net income (loss)</b>		<b>(635)</b>	<b>77</b>	<b>(3)</b>	<b>(561)</b>
Attributable to					
Equity Holders		(636)	77		(559)
Minority interests		1		(3)	(2)

**(a) Revenues**

(i) Revenues recognized on licensing and patents activity	24
(ii) Cash discounts granted reclassified from financial costs	(6)
(iii) Impact of deferred payment of liability	1
<b>Total impact increase in revenues</b>	<b>19</b>

(i) Revenue from the Group's licensing and patents business activities results from licensing agreements of the non-exclusive use of patents developed or acquired by the Group. Under French GAAP, revenue is recognized as income to the prevailing period if (1) a contract was signed before the date the Group consolidated financial statements have been approved by the board of directors and if (2) the revenue recognized is earned, which means it relates to licenses used during periods prior to





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the date the current year accounts were signed off. According to IAS 18 such revenue is recognized when it is received or earned base upon a formal agreement signed between the parties at the closing date. Accordingly, in 2004, the impact on the IFRS net result is a positive effect of 24 million, including the reversal of the previous 27 million (positive impact) and 3 million (negative impact) related to revenues accounted for in 2004 under French GAAP but deferred to 2005 under IFRS.

(ii) Mainly relates to the reclassification of cash discount granted to customers. Under IFRS, revenues should be presented net of cash discounts granted to customers. These discounts were considered as financial costs under French GAAP and amounted to 5 million as of December 31, 2004.

(iii) Refer to section 38.3 (q) Other current liabilities § ii.

**(b) Cost of sales**

(i) Rebates received from suppliers	(4 )
(ii) Customer relationships amortization	(23 )
(iii) Impacts related to net periodic pension costs	10
(iv) Reversal of depreciation charge due to fair value adjustment related to TV fixed assets	2
(v) Change of classification of freight cost in the Services Segment	(30 )
(vi) Write off of spare parts	(3 )
(vii) Change of classification of Warranty costs	(82 )
	<hr/>
<b>Total impact increase in cost of sales</b>	<b>(130 )</b>
	<hr/>

(i) Under French GAAP, some rebates received from suppliers were recorded in deduction of the costs of sales for the related period. Under IFRS, when those rebates are linked to future purchases commitments, they should be considered upfront payments on future business and spread over that future business. They were accounted for in the 2004 IFRS income statement with a negative impact of 4 million.

(ii) The customer relationships amortization charge under IFRS amounted to 23 million for 2004. Under French GAAP, these customer relationships were not amortized.

(iii) Refer to (i) Post employment benefits expense from current section.

(iv) The fair value adjustment of the fixed assets of TV activities as of January 1, 2004 generated a positive impact of 2 million linked to the reversal of the related depreciation charge accounted for under French GAAP between January 1, 2004 and the date of fixed assets disposal.

(v) The freight costs of the Services Segment distribution activity were classified as selling expenses under French GAAP. In substance the classification of these costs under Cost of Sales heading is more meaningful under IFRS.

(vi) Refer to section 38.3 (g) Inventories § iii.

(vii) Under French GAAP, Thomson classified warranty costs under Selling expenses. The warranty service is included in the sale price and the corresponding cost should therefore be included in the cost of sales. Hence, under IFRS, Thomson has elected the classification in cost of sales.

[Back to Index](#)**(c) Selling, general, administrative expenses and others**

(i) Reversal of goodwill amortization	100
(ii) Reclassification of impairment charge on TTE Goodwill	18
(iii) Capital gain from TTE	11
(iv) Transaction costs related to TTE	4
(v) Impacts related to net periodic pension costs and restructuring costs	(24 )
(vi) Other transaction costs deferred under French GAAP	(1 )
(vii) Share-based compensation charge	(3 )
(viii) Restructuring costs related to 2004 business acquisitions	(29 )
(ix) Change of classification of freight cost of Technicolor	30
(x) Change of classification of capital gain on a non controlled entity	(10 )
(xi) Change of classification of Warranty costs	82
Other	(1 )
	<hr/>
<b>Total impact decrease of selling, general, administrative expenses and others</b>	<b>177</b>
	<hr/>

(i) In compliance with IFRS 3, the total goodwill amortization expense in 2004 reversed under IFRS amounted to 130 million. The 35 million of goodwill impairment related to TTE ( 23 million), Zhao Wei ( 7 million) and Screenvision ( 5 million) remained an expense in the 2004 IFRS income statement. In addition, under IFRS, the fair value adjustment on the tangible assets of TV activities generated a 5 million decrease of the goodwill impairment related to TTE.

(ii) Impairment charge of goodwill on investment accounted for using the equity method shall be posted in the heading share of loss from associate for an amount of 18 million (refer to (f) Share of loss from associates from current section).

(iii) In accordance with IFRS 1, tangible assets of TV activities were measured at fair value and therefore reduced the net consolidated value of the transferred activity. Consequently, the capital gain related to this transaction increased by 11 million under IFRS.

(iv) Under French GAAP, the 23 million total transaction costs related to TTE transaction were allocated as follows:

11.5 million (before tax effect) of which 8 million recognized as part of allocating the costs of the combination, and 4 million recognized as tax charge (refer to (g) Income tax, § ii from current section); and 11.5 million related to the disposal of the Group's TV activity have been charged to capital gain.

Under IFRS, as no transaction was completed at 2003 year-end, the 9 million of costs were expensed against the opening net equity. The 14 million incurred in 2004 were allocated as follows:

7 million were recognized as part of allocating the costs of the combination, generating a difference of 1 million compared with French GAAP (refer to section 38.3 (d) Investments in associates § ii). These acquisition costs have been recognized before tax effect;

7 million have been charged against capital gain, generating a 4 million difference on capital gain between French GAAP and IFRS.

(v) Refer to (i) Post employment benefits expense from current section.

(vi) Other transaction costs incurred in 2004, that management estimated not probable to be finalized, were charged under IFRS and deferred under French GAAP for 1 million.



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(vii) In accordance with the requirements of IFRS 2 Share-based payment , the fair value of stock options granted to employees is recorded as an expense in the income statement. Under French GAAP, unlike IFRS, the fair value of the service of the employees is not recognized as an expense. The impact of IFRS 2 application on the 2004 IFRS income statement regarding the plans not covered by the aforementioned exemptions was a 3 million expense.

(viii) As explained in section 38.3 (b) Goodwill § ii, restructuring costs of 29 million related to entities acquired in 2004, which could not be recognized in goodwill under IFRS and therefore were charged to the IFRS income statement.

(ix) Refer to (b) Cost of sales § v from current section.

(x) Refer to (e) Other financial expense § iv from current section.

(xi) Refer to (b) Cost of sales § vii from current section.

**(d) Research and development expense**

(i) Capitalization of development projects	14
(ii) Impacts related to net periodic pension costs	6
(iii) Write-off of fixed assets dedicated to specific projects	(1 )
(iv) Change of classification of grants for R&D	3
	<hr/>
<b>Total impact decrease of research and development expense</b>	<b>22</b>
	<hr/>

(i) The capitalization of the development projects in accordance with IAS 38 has a positive impact of 14 million on the 2004 IFRS income statement, composed of 29 million increase in gross value and 15 million amortization charge of the year.

(ii) Refer to (i) Post employment benefits expense from current section.

(iii) Mainly fixed assets dedicated to internal projects with a net value of 1 million were written off.

(iv) Under IFRS, grants for R&D ( Crédits d'impôt recherche ) are recognized in profit and loss as a credit of research and development expense. Under French GAAP, these grants were deducted from Income tax.

**(e) Other financial income (expense)**

(i) Cash discounts granted to customers	5
(ii) Net periodic interest pension costs	(17 )
(iii) Subsidiaries controlled but not consolidated under French GAAP	(1 )
(iv) Change of classification of capital gain on non controlled entity	10
	<hr/>
<b>Total impact increase in other financial expense</b>	<b>(3 )</b>
	<hr/>

(i) As explained under (a) Revenues § ii from current section, cash discounts granted to customers are deducted from revenues under IFRS.

(ii) Refer to (i) Post employment benefits expense from current section.

(iii) Refer to section 38.3 (h) Current accounts with affiliated companies § i.

(iv) Under IFRS, capital gain from the disposal of its investment in a non controlled entity has been reclassified from Selling, general administrative expenses and other to other financial income.

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[Back to Index](#)**(f) Share of loss from associates**

Under IFRS, as explained under section 38.3 (b) Goodwill § iii, goodwill on equity investment is posted in the heading Investments in associates. As a result, the impairment charge recognized on the TTE goodwill, which amounted to 18 million under IFRS ( 23 million under French GAAP), has been reclassified from the heading Selling, general, administrative expenses and others to the heading Share of loss from associates.

**(g) Income tax**

(i) Reversal of tax charge on Marion	8
(ii) Reversal of tax charge on TTE	4
(iii) Deferred tax income on entities with a functional currency different from the local currency	4
(iv) Deferred tax income on undistributed reserves	(3 )
(v) Deferred tax charge on other IFRS adjustments	2
(vi) Tax loss carryback receivable at discounted value	(2 )
(vii) Change of classification of grants for R&D	(3 )
	<hr/>
<b>Total impact decrease of income tax</b>	<b>10</b>
	<hr/>

(i) Under French GAAP, as a result of the capitalization through goodwill of the restructuring charges of an acquired company, a deferred tax charge had been recorded for 8 million corresponding to 40% of the restructuring charge, including a cumulative translation adjustment of 1 million. Under IFRS, as opposed to French GAAP, an acquirer is required to recognize liabilities for terminating or reducing the activities of the acquired company when allocating the cost of the business combination only when the acquired company has, at the acquisition date, already recognized an existing liability for restructuring according to IAS 37. Therefore, the provision for restructuring costs should be recognized as expenses and the related deferred tax charge should also be recognized as an income.

(ii) As explained under (c) Selling, general, administrative expenses and others § iv from current section, under French GAAP, capitalized transaction costs related to TTE transactions are recognized net of tax. Under IFRS, transactions costs of TTE transaction have to be recognized before tax effect. Consequently the 4 million tax charge recorded under French GAAP has been reversed in the IFRS income statement.

(iii) Unlike French GAAP, under IFRS, a deferred tax is recorded on differences between the tax base and the carrying value of the non-monetary assets of the consolidated entities for which the functional currency differs from the local currency. Consequently, net deferred tax liabilities amounting to 6 million were recognized in the opening retained earnings as of January 1, 2004, out of which 2 million were reversed in 2004 IFRS income statement.

(iv) The Group recognized under IFRS a deferred tax on investments in associates and joint ventures, for which Thomson is not able to control the distribution of profit, and for which it is probable that the temporary difference will reverse in the foreseeable future. The impact of 3 million corresponds to

3 million recorded against the opening retained earning as of the date of IFRS transition and reversed in the 2004 IFRS income statement.

(v) Deferred tax expense on other 2004 IFRS adjustments amounts to 3 million.

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(vi) Refer to section 38.3 (f) Other non-current assets § ii.

(vii) Refer to (d) Research and development expense § iv from current section.

**(h) Loss from discontinued operations**

As explained in Note 11 Discontinued operations of the consolidated financial statements as of June 30, 2005, the Group has discontinued operations in respect of operations linked to the exit of Tubes and Display businesses.

According to IFRS 5, the IFRS income statement for the comparative periods has to be restated in order to reflect the effect of the discontinued operations. The column IFRS 5 presented in the section 38.4 reflects the required restatement for each line of the profit from continuing operations in the IFRS income statement.

The net result of the discontinued operations is presented on a separate line in the IFRS income statement.

**(i) Post employment benefits expense**

Net periodic pension income recognized in cost of sales	10	
Net periodic pension costs recognized in selling, general, administrative expenses and others	(24	)
Net periodic pension costs recognized in research and development expense	6	
	<hr/>	
<b>Net impact increase in operational post employment benefits expense</b>	<b>(8</b>	<b>)</b>
Net periodic interest pension costs (other financial costs)	(17	)
	<hr/>	
<b>Total impact net increase in post employment benefits expense</b>	<b>(25</b>	<b>)</b>
	<hr/>	

The IFRS impact on 2004 income statement in relation to employee benefits is a negative effect of 25 million, out of which 17 has been reclassified as a charge in the financial result. The 25 million impact is mainly due to the following:

- a 40 million of negative impact was recognized in the 2004 IFRS Income statement in respect of curtailment occurred in 2004. This impact has been recorded under IFRS in opening retained earnings and under French GAAP, it has been booked in 2004; as a consequence of the IFRS 1 option, the pension costs recognized in 2004 under IFRS no longer include the amortization of actuarial losses existing as of January 1, 2004, which are charged directly against equity. A positive effect of 10 million was booked in the 2004 income statement;
- a negative effect of 5 million of unrecognized prior service costs resulting from changes in medical retiree plans for Americans;
- a positive effect of 10 million is due to valuation method differences, especially on early retirement plans.

[Back to Index](#)**(j) Bridge between net loss for the year ended December 31, 2004 released in interim the IFRS transition information and the one released in the present note**

The following improvements have been made to the data provided previously in interim IFRS transition information:

change of classification of Warranty costs from Selling expenses to Cost of sales (refer to (b) Cost of sales § vii from current section);

change of classification of grants for R&D from Income tax to research and development expense (refer to (d) Research and development expense § iv from current section);

change of classification of Capital gains and losses on non consolidated entities from Other income (expense) to Other financial income (expense) (refer to (e) Other financial income (expense) § iv from current section).

Adjustments of net loss of the Group for year ended December 31, 2004:

	<b>For year ended December 31, 2004</b>
	<b>(in millions)</b>
<b>Net loss of the Group as released in interim IFRS transition information</b>	<b>(551 )</b>
Adjustment related to deferred tax asset on interest on joint-ventures previously recognized on UK area (refer to (g) Income tax § iv from current section)	(5 )
Adjustment related to tax loss carryback receivable measured at discounted value instead of historical value (refer to (g) Income tax § vi from current section)	(2 )
Adjustment related to subsidiaries controlled but not consolidated analyzed as immaterial subsidiaries under French GAAP (refer to section 38.3 (h) Current accounts with affiliated companies § i and (e) Other financial expense § iii from current section)	(1 )
<b>Net loss of the Group as released in final IFRS transition information</b>	<b>(559 )</b>

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[Back to Index](#)**38.5 Balance sheet as of January 1, 2005**

For the 2004 financial information, the Group applied all IFRS standards and interpretations, which are expected to be mandatory as of December 31, 2005 except for the following standards, which the Group did not elect for an earlier application:

- IAS 32 Financial instruments: disclosure and presentation . The Group applies these standards starting from January 1, 2005;  
 IAS 39 Financial Instruments: recognition and measurement . The Group applies these standards starting from January 1, 2005;  
 IFRS 5 Non-current assets held for sale and discontinued operations . The Group applies this standard starting from January 1, 2005.

The following note presents the impacts of IAS 32 and 39 and IFRS 5 on the balance sheet as of January 1, 2005.

	Note	IFRS as of December 31, 2004	IAS 32/39	IFRS 5	IFRS as of January 1, 2005
(in millions)					
<b>ASSETS</b>					
<b>Non-current assets:</b>					
Property, plant and equipment		1,051			1,051
Goodwill	a	1,178	8		1,186
Intangible assets		924			924
Investments in associates		260			260
Investment and financial assets available-for-sale	b	113	26		139
Derivative financial instruments	c		11		11
Contract advances		179			179
Deferred tax assets	d	301	10	(4 )	307
Other non-current assets		136		(3 )	133
<b>Total non-current assets</b>		<b>4,142</b>	<b>55</b>	<b>(7 )</b>	<b>4,190</b>
<b>Current assets:</b>					
Inventories		568		(65 )	503
Trade accounts and notes receivable	e	1,180	54	(2 )	1,232
Current accounts with affiliated companies		143			143
Derivative financial instruments	c		115		115
Other current assets	f	616	(130 )	(3 )	483
Marketable securities		58			58
Cash and cash equivalents		1,848		(3 )	1,845
<b>Total current assets</b>		<b>4,413</b>	<b>39</b>	<b>(73 )</b>	<b>4,379</b>
<b>Non-current assets classified as held for sale</b>				<b>80</b>	<b>80</b>
<b>Total assets</b>		<b>8,555</b>	<b>94</b>		<b>8,649</b>



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Note	IFRS as of December 31, 2004		IFRS as of January 1, 2005	
	IAS 32/39	IFRS 5	IFRS 5	
(in millions)				
<b>LIABILITIES, SHAREHOLDERS EQUITY AND MINORITY INTERESTS</b>				
<b>Shareholders equity:</b>				
		1,025		1,025
		(55)		(55)
		1,751		1,751
		(23)	112	89
		(125)	(198)	(323)
		(98)		(98)
		<b>2,475</b>	<b>(86)</b>	<b>2,389</b>
Minority interests	h	18	(9)	9
<b>Total equity</b>		<b>2,493</b>	<b>(95)</b>	<b>2,398</b>
<b>Non-current liabilities:</b>				
	i	1,597	(57)	1,540
		785	(25)	760
	j		122	122
		55		55
	d	37	10	43
		129	(4)	129
<b>Total non-current liabilities</b>		<b>2,603</b>	<b>75</b>	<b>2,649</b>
<b>Current liabilities:</b>				
	i	904	107	1,011
	j		34	34
		65		65
		76		76
		81		81
		1,226	(27)	1,199
		163	(5)	158
		60		60
	k	800	(27)	746
		84		84
<b>Total current liabilities</b>		<b>3,459</b>	<b>114</b>	<b>3,514</b>
<b>Liabilities directly associated with non-current assets classified as held for sale</b>			<b>88</b>	<b>88</b>
<b>Total liabilities, shareholders equity and minority interests</b>		<b>8,555</b>	<b>94</b>	<b>8,649</b>

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[Back to Index](#)**Effect of application of IAS 32 and 39****(a) Goodwill**

(i) Commitments to repurchase minority interests	8
	<hr/>
<b>Total impact increase in goodwill</b>	<b>8</b>
	<hr/>

(i) Under French GAAP, commitments granted to shareholders to repurchase their minority interests were presented off-balance sheet. When applicable, foreseeable losses of repurchases were accrued. Under IFRS, the commitment to repurchase minority interests is recognized as a financial debt for the present value of the repurchase consideration under the put option ( 17 million), offset through minority interests ( 9 million) and the balance through goodwill ( 8 million).

**(b) Investment and financial assets available-for-sale**

(i) Remeasurement of available-for-sale financial assets	26
	<hr/>
<b>Total impact increase in available-for-sale</b>	<b>26</b>
	<hr/>

(i) Available-for-sale assets are recognized at fair value. For listed shares, the restatement consists of recognizing in shareholders equity, the temporary difference between the carrying value and the market value, net of any possible deferred tax impacts.

**(c) Derivative financial instruments**

(i) Fair value of derivative financial instruments (both non-current and current)	126
	<hr/>
<b>Total impact increase in derivative financial instruments</b>	<b>126</b>
	<hr/>

(i) Under French GAAP, off balance sheet derivative financial instruments are not in all cases recorded in the balance sheet. Under IFRS such instruments are systematically recorded at fair value in the balance sheet. If the derivative is a fair value hedge or if it is considered speculative the mark to market change in value is recorded in financial result. If the derivative is a cash flow hedge the change in mark to market of the effective portion of the hedging instrument is recorded in shareholders equity.

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[Back to Index](#)**(d) Deferred taxes**

(i) Deferred tax assets	Reversal of valuation allowance/Deferred tax liabilities	10
		<hr/>
<b>Total impact</b>	<b>increase in deferred tax assets and liabilities</b>	<b>10</b>
		<hr/>

(i) A deferred tax liability has been recognized by adjusting the initial carrying amount of the equity component of the convertible liability issued in euros ( 10 million), a reversal of valuation allowance has been booked for the same amount. Furthermore, a deferred tax asset fully depreciated ( 29 million) has been recognized on the fair value of the embedded conversion option bifurcated from the debt component of the convertible debt instrument issued to Silver Lake Partners LLC.

**(e) Trade accounts and notes receivable**

(i) Factoring or sale of receivables without recourse	54
	<hr/>
<b>Total impact</b>	<b>54</b>
	<hr/>

(i) Under French GAAP, accounts receivable without recourse were excluded from the trade accounts and notes receivable. Under IFRS, the receivables without recourse are considered as being trade receivables with counterpart in borrowings because the Group retains the risk of late receipts. The adjustment as of January 1, 2005 amounted to 54 million. The corresponding debt is recorded under borrowings.

**(f) Other current assets**

(i) Hedge revaluation suspense accounts	(116 )
(ii) Change of classification of prepaid bank fees	(14 )
	<hr/>
<b>Total impact</b>	<b>(130 )</b>
	<hr/>

(i) Under French GAAP, gains and losses resulting from revaluation of outstanding derivatives that are accounted for as hedges are deferred and taken in the income statement during the same period as the underlying hedged exposure. These deferred results were accounted for in the balance sheet in a hedge suspense account which is part of other current assets/creditors. Under IFRS, these gains and losses are accounted for either in the income statement for hedges of balance sheet items or in shareholders' equity for hedges covering future cash flows.

(ii) Refer to (g) Retained earnings and other reserves § viii and (i) Borrowings § i from current section.

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[Back to Index](#)**(g) Retained earnings and other reserves**

(i) Interests expenses on convertible bonds	(166	)
(ii) Reserves and retained earnings (hedging impact)	(4	)
(iii) Net equity hedging reserve	15	
(iv) Equity component of convertible bonds	120	
(v) Written puts	(37	)
(vi) Remeasurement of call option	(8	)
(vii) Remeasurement of available-for-sale financial assets	6	
(viii) Prepaid bank fees included in effective interest rate	(12	)
	<hr/>	
<b>Total impact increase in retained earnings and other reserves</b>	<b>(86</b>	<b>)</b>
	<hr/>	

(i) Under French GAAP, the interest expense recognized on a convertible bond is the actual rate applied to the nominal amount of the debt. Under IFRS, an effective interest rate is determined which is applied to the debt component of the convertible. This difference in interest expense is recorded as a reduction of retained earnings; the offset is an accretion of the amount of the debt component of the convertible.

(ii) Under French GAAP, the entire impact of a qualifying hedge is taken in the financial statements as an offset to the change in value of the underlying exposure. Under IFRS, the impact of a hedge is broken out into effective and ineffective portions; the latter is taken to financial result or in the case of the opening IFRS balance sheet to retained earnings.

(iii) Under French GAAP, the gains and losses resulting from revaluation of outstanding derivatives that are accounted for as hedges are deferred and taken in the income statement during the same period as the underlying hedged exposure. Under IFRS, the effective portion of such gains and losses on derivatives hedging future cash flows is taken in shareholders' equity in Net equity hedging reserve.

(iv) Under French GAAP, a convertible bond is recognized in the balance sheet as long term debt for its nominal amount. Under IFRS, the equity component of convertible bonds is accounted for as an increase in equity offset by a reduction of the nominal amount of the debts.

(v) Refer to (i) Borrowings § iv from current section.

(vi) Refer to (i) Borrowings § v from current section.

(vii) Refer to (b) Investments and financial assets available-for-sale § i from current section.

(viii) Under French GAAP, prepaid bank fees related to debt issues are booked as an asset in the balance sheet and amortized on a straight-line basis through financial result over the life of the debt instrument. Under IFRS, prepaid bank fees are booked as a reduction of long term debt and amortized over the life of the debt instrument by the effective interest rate method ( 12 million). A part of prepaid bank fees related to senior notes are reclassified in borrowings ( 2 million)

[Back to Index](#)**(h) Minority interests**

(i) Change of classification of minority interests	(9 )
	<hr/>
<b>Total impact decrease of minority interests</b>	<b>(9 )</b>
	<hr/>

(i) Refer to (a) Goodwill § i from current section.

**(i) Borrowings**

(i) Convertible bonds	(76 )
(ii) Market value swap interest	12
(iii) Factoring or sale of receivables without recourse	54
(iv) Written put	37
(v) Remeasurement of call granted to TCL	8
(vi) Change of classification minority interests, valued at present value	17
(vii) Prepaid bank fees	(2 )
	<hr/>
<b>Total impact increase in borrowings (both non-current and current)</b>	<b>50</b>
	<hr/>

(i) Under French GAAP, a convertible bond is recognized in the balance sheet as long term debt for its nominal amount. Under IFRS, the equity component of convertible bonds is accounted for as an increase in equity offset by a reduction of the nominal amount of the debt. Moreover, under IFRS, the prepaid bank fees related to the issuance of the convertible bonds are accounted for as a reduction of debt for the fees related to the debt component of the convertible and as a reduction of equity for the fees related to the convertible equity component.

(ii) Under French GAAP, interest rate swaps are not accounted for in the balance sheet. Under IFRS, the fair market value of interest rate swaps are accounted for as an asset or liability in the balance sheet with the offset being a corresponding increase or decrease of the underlying debt.

(iii) Refer to (e) Trade accounts and notes receivable § i from current section.

(iv) Under French GAAP a written put on a company's own shares, as an off-balance sheet contingent obligation is not recognized in the balance sheet. Under IFRS, the put is recognized for the present value of the repurchase consideration under the put option (i.e. the discounted amount of the exercise price multiplied by the number of shares covered by the put) as an increase in equity with offset being financial debt.

(v) Under French GAAP, a call granted on a company's own shares is not recognized in the balance sheet. Under IFRS, the call with terms that require or permit net settlement is valued mark to market with the result taken in income and the offset being a financial asset or financial liability.

(vi) Refer to (a) Goodwill § i and to (h) Minority interests § i from current section.

(vii) Refer to (g) Retained earnings and other reserves § viii from current section.





[Back to Index](#)**(j) Derivative financial instruments**

(i) Fair value of the embedded conversion option	122
(ii) Fair value of derivative financial instruments	14
(iii) Remeasurement of available-for-sale financial assets	20
	<hr/>
<b>Total impact increase in derivative financial instruments (split between non-current and current)</b>	<b>156</b>
	<hr/>

(i) Under French GAAP, the Group's USD 500 million convertible bond due 2010 issued to Silver Lake Partners LLC is accounted for as a debt. Under IFRS, the bond is split into a debt component and an option conversion component. The fair value option is accounted for as financial derivative.

(ii) Under French GAAP, off balance sheet derivatives are not accounted for in the balance sheet. Under IFRS, the fair value of all derivatives is accounted for as assets or liabilities in the balance sheet.

(iii) Refer to (b) Investments and financial assets available-for-sale § i from current section.

**(k) Other current liabilities**

(i) Hedge suspense account	(27 )
	<hr/>
<b>Total impact decrease of Other current liabilities</b>	<b>(27 )</b>
	<hr/>

(i) Under French GAAP, gains and losses resulting from revaluation of outstanding derivatives that are accounted for as hedges are deferred and taken in the income statement during the same period as the underlying hedged exposure. For foreign exchange derivatives part of these deferred results were accounted for in the balance sheet in a hedge suspense account, which is part of other current assets. Under IFRS these gains and losses are accounted for either in the income statement for hedges of balance sheet items or in shareholders' equity for hedges covering future cash flows.

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[Back to Index](#)**Effect of application of IFRS 5**

As of January 1, 2005, Anagni plant assets and liabilities met the criteria of group of assets held for sale, therefore, in accordance with IFRS 5, they have to be presented separately in the consolidated balance sheet. The assets held for sale mainly include 65 million of inventories, net, 23 million of accounts receivable and 7 million of other current assets. Related liabilities mainly include 25 million of post employment benefits, 27 million of accounts payable and 111 million of intra-group liabilities.

**38.6 Cash-flow statement as of December 31, 2004**

	Note	French GAAP	Effect of transition to IFRS	IFRS
<b>Net cash generated from operating activities</b>	a	<b>401</b>	<b>29</b>	<b>430</b>
Of which operating cash used in discontinued operations				(125 )
<b>Net cash used in investing</b>	b	<b>(902 )</b>	<b>(87 )</b>	<b>(989 )</b>
Of which investing cash used in discontinued operations				(131 )
<b>Net cash used in financing activities</b>		<b>5</b>		<b>5</b>
Of which financing cash used in discontinued operations				2
<b>Net decrease/increase in cash and bank equivalents:</b>		<b>(496 )</b>	<b>(58 )</b>	<b>(554 )</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>2,383</b>		<b>2,383</b>
Exchange gains/(losses) on cash and cash equivalents		19		19
<b>Cash and cash equivalents at end of period</b>	c	<b>1,906</b>	<b>(58 )</b>	<b>1,848</b>

The IFRS cash flow statement is affected by the following changes:

**(a) Net cash generated from operating activities**

Under French GAAP, the net cash from operating activities was presented starting from the operating income. Under IFRS, the net cash from operating activities was presented starting from the net result. The difference on net cash generated from operating activities under French GAAP and IFRS is due to the capitalization of the development projects, which were expensed under French GAAP.

**(b) Net cash used in investing**

The difference on net cash generated from operating activities under French GAAP and IFRS results from impacts described in (a) and (c) from current section.

**(c) Cash and cash equivalents at end of period**

Under IFRS, marketable securities cannot be qualified as cash equivalents because such investments could be subject to risks that can not be considered as insignificant according to IAS 7 of change in value. Such investments are classified as held for trading and categorized as financial assets at fair value through profit or loss.

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[Back to Index](#)**39 List of consolidated subsidiaries**

Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
<b>1) FULLY CONSOLIDATED</b>		
Thomson (France) (formerly Thomson multimedia)	Parent company	
46 quai Le Gallo 92100 Boulogne Billancourt - France	100.0	100.0
ATLINKS Communications Canada, Inc. (Canada)	100.0	100.0
ATLINKS Telecommunication (Guangzhou) Cie Ltd. (People s Republic of China)	100.0	100.0
ATLINKS Hong Kong Ltd. (Hong Kong)	100.0	100.0
ATLINKS USA, Inc. (US)	100.0	100.0
Baja Hughes S. de R.L. de C.V. (Mexico)	100.0	100.0
Beijing Thomson Commerce Co. Ltd. (People s Republic of China)	100.0	
Broadcast Television Systems Ltd. (United Kingdom)	100.0	100.0
Broadcast Television Systems Australia Pty Ltd. (Australia)	100.0	100.0
Broadcast Television Systems (S), Pty Ltd. (Singapore)	100.0	100.0
Canal+ Technologies, Inc. (US)	100.0	100.0
Comercializadora de Productos Electronicos del Norte, S.A. de C.V. (Mexico)	100.0	100.0
Celstream Technologies Private Ltd. (India) <sup>(1)</sup>	44.8	
Deutsche Thomson Brandt GmbH (Germany)	100.0	100.0
Direct Solutions, Inc. (US)	100.0	100.0
European Audio Products (HK) Ltd. (Hong Kong)	100.0	100.0
European Thai Electronic Company Ltd. (Thailand)	100.0	100.0
GALLO 3 S.A. (France)	100.0	100.0
GALLO 4 S.A. (France)	100.0	100.0
Gallo 7 (France)	100.0	100.0
Gallo 15 (France)	100.0	100.0
Gallo 19 (France)	100.0	100.0
Gallo 20 (France)	100.0	
Grass Valley Belgium (Belgium) (Formerly Thomson multimedia Broadcast Solutions Belgium BV)	100.0	100.0
Grass Valley Germany GmbH (Germany) (formerly BTS Media Solutions GmbH/Thomson Broadcast & Media Solutions GmbH)	100.0	100.0
Grass Valley France S.A. (France) (formerly Thomson Broadcast Systems S.A./Thomson Broadcast & Media Solutions SA)	100.0	100.0
Grass Valley Italy S.r.l. (Italy) (Formerly Thomson multimedia Broadcast Solutions Italy S.r.l)	100.0	100.0
Grass Valley Japan Ltd (Japan) (formerly Grass Valley Group Japan, Ltd.)	100.0	100.0
Grass Valley Ltd. (Hong Kong)	100.0	100.0
Grass Valley Ltd. (United Kingdom) (formerly Thomson Broadcast Ltd./Thomson Broadcast & Media Solutions Ltd)	100.0	100.0

(1) The financials of Celstream Technologies Private Limited ( Celstream ) have been consolidated in the Statement of Accounts, on the basis that Celstream is a de facto controlled entity in conformity with IAS 27 (i.e. even though Thomson holds only 44.8% in the capital of Celstream, which percentage holding does not correspond to the written definition of a subsidiary of Thomson under the French commercial code). In 2005, Celstream is representing a contribution in revenue of 4 million and in net profit of 1 million.

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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Grass Valley Pte Ltd. (Singapore)	100.0	100.0
Grass Valley S.A.R.L. (France)	100.0	100.0
GVG Pty Ltd. (Australia)	100.0	100.0
Grass Valley, Inc. (US) (formerly Thomson Broadcast & Media Solutions, Inc.)	100.0	100.0
Grass Valley Nederland B.V. (Netherlands) (formerly Broadcast & Media Solutions Netherlands B.V./ Thomson Broadcast & Media Solutions Nederlands BV)	100.0	100.0
Grass Valley Spain (Spain) (formerly Thomson multimedia Broadcast Solutions Iberica, S.A./Thomson multimedia Broadcast Solutions)	100.0	100.0
Gyration, Inc. (US)	100.0	100.0
Immobilière Cesson (France)	100.0	100.0
Immobilière LE GALLO (France)	100.0	100.0
Laboratories Thomson Ltd. (Switzerland)	100.0	100.0
Mediabright Ltd. (United Kingdom)	100.0	100.0
MediaSec Technologies GmbH (Germany)	100.0	
Metabyte Networks, Inc. (US)	49.0	49.0
MNC Australia Pty Ltd. (Australia)	100.0	100.0
Multimedia Insurance Brokerage (France)	100.0	100.0
Nextamp S.A. (France)	83.7	
Nextream S.A. (France)	100.0	100.0
Nextream Deutschland GmbH (Germany)	100.0	
Nextream France S.A. (France)	100.0	100.0
Nextream Schweiz A.G. (Switzerland)	100.0	
Productos Electronicos de la Laguna, S.A. de C.V. (Mexico)	100.0	100.0
PT Thomson Batam (Indonesia) (formerly Thomson Batam)	100.0	100.0
RCA Trademark Management S.A. (France)	100.0	100.0
Servi-Centro Electronico de Mexico, S.A. de C.V. (Mexico)	100.0	100.0
S.M. Electronics (Germany)	100.0	
Société Tonnerroise d Electronique Industrielle - STELI (France)	100.0	100.0
Société Française d Investissement et d Arbitrage - Sofia (France)	100.0	100.0
TAK S.A.S. (France)	100.0	100.0
TCE Purchasing Company Taiwan (Taiwan)	100.0	100.0
TCE Purchasing Company Japan (Japan)	100.0	100.0
TCE Purchasing Company Korea (South Korea)	100.0	100.0
TCE Television Taiwan Ltd. (Taiwan)	100.0	100.0
Thales Broadcast & Multimedia S.A. (France)	100.0	
Thales Broadcast & Multimedia Inc. (US)	100.0	
Thales Broadcast & Multimedia GmbH (Germany)	100.0	

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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Thales Broadcast & Multimedia A.G. (Switzerland)	100.0	
Thales Radio Broadcast, Inc. (US)	100.0	
Thomson Asia Pacific Holdings Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pacific Pte Ltd.)	100.0	100.0
Thomson Asia Pacific Investments Pte Ltd. (Singapore) (formerly Thomson multimedia Asia Pte Ltd.)	100.0	100.0
Thomson Broadband (India) Private Ltd (India)	100.0	
Thomson Broadband R&D (Beijing) Co Ltd (People s Republic of China)	100.0	
Thomson Broadband UK Ltd. (United Kingdom)	100.0	100.0
Thomson Broadcast Solutions do Brazil Ltda. (Brazil)	100.0	100.0
Thomson China Investment Limited (British Virgin Islands)	100.0	
Thomson Consumer Electronics International S.A. (France)	100.0	100.0
Thomson Crown Wood Products Company (US)	100.0	100.0
Thomson Displays & Components Holding S.A.S. (France)	100.0	100.0
Thomson Displays & Components Singapore Pte Ltd (Singapore)	100.0	100.0
Thomson Displays Mexicana, S.A. de C.V. (Mexico)	(***)	100.0
Thomson Display R&D (People s Republic of China)	(***)	100.0
Thomson Fund Management, Inc. (US) (formerly Thomson Management Growth Fund)	55.2	55.2
Thomson Genlis S.A. (France) (Formerly GALLO 1)	100.0	100.0
Thomson Guangdong Display Company Ltd. (People s Republic of China) (formerly Thomson Foshan Colour Picture Company Ltd.)	(***)	77.6
Thomson Holding Germany GmbH & Co. O.H.G. (Germany) (formerly Thomson multimedia Sales Germany GmbH & Co O.H.G.)	100.0	100.0
Thomson Holding Italy S.p.A. (Italy)	100.0	
Thomson Hong Kong Holdings Ltd. (Hong Kong) (formerly Thomson multimedia Hong Kong Ltd.)	100.0	100.0
Thomson Industry (Shenzhen) Co Ltd (People s Republic of China) (formerly Thomson Shenzhen Industry Ltd.)	100.0	100.0
Thomson Investments Group Limited (British Virgin Islands)	100.0	100.0
Thomson Investments India Limited (British Virgin Islands)	51.0	
Thomson Japan KK (Japan)	100.0	100.0
Thomson Kulim Sdn Bhd (Malaysia)	100.0	100.0
Thomson Licensing, Inc. (US)	100.0	100.0
Thomson Licensing (France)	100.0	100.0
Thomson Marketing Australia Pty Ltd. (Australia)	100.0	100.0
Thomson Maroc (Morocco) (formerly Thomson multimedia Maroc)	90.5	90.5
Thomson Media Services France (France) (Formerly GALLO 18)	100.0	100.0
Thomson Media Solutions Malaysia Sdn Bhd (Malaysia) (formerly Thomson Audio Muar Sdn Bhd)	100.0	100.0
Thomson Multimedia Portfolio Holdings (US)	55.2	55.2
Thomson multimedia (Dongguan) Ltd. (People s Republic of China)	100.0	100.0

(\*\*\*) Entities sold to Videcon.

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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Thomson multimedia Digital Holding (British Virgin Islands) Limited	100.0	100.0
Thomson multimedia Chile S.A. (Chile)	100.0	100.0
Thomson multimedia Czech, S.r.o. (Czech Republic)	100.0	100.0
Thomson multimedia Digital France (France)	100.0	100.0
Thomson multimedia Distribution B.V. (Netherlands)	100.0	100.0
Thomson multimedia Engineering Laboratories Ltd. (Japan)	100.0	100.0
Thomson multimedia Hungary K.f.t. (Hungary)	100.0	100.0
Thomson, Inc. (US)	100.0	100.0
Thomson multimedia Ltd. (Canada)	100.0	100.0
Thomson multimedia Netherlands B.V. (Netherlands)	100.0	100.0
Thomson multimedia Polska sp.zo.o. (Poland) (formerly Thomson Polkolor sp.zo.o.)	100.0	100.0
Thomson R&D France S.N.C. (France) (formerly Thomson multimedia R&D France S.N.C.)	100.0	100.0
Thomson multimedia Sales France (France)	(** )	100.0
Thomson multimedia Sales International S.A.S. (France)	100.0	100.0
Thomson multimedia Sales Italy S.p.A. (Italy)	100.0	100.0
Thomson multimedia Sales Spain S.A. (Spain)	100.0	100.0
Thomson multimedia Sales UK Ltd. (United Kingdom)	100.0	100.0
Thomson multimedia (Schweiz) A.G. (Switzerland)	100.0	100.0
Thomson multimidia do Brazil Ltda. (Brazil)	100.0	100.0
Thomson Optical Components Ltd (Hong Kong) (formerly Broadcast Television Systems HK Ltd.)	100.0	100.0
Thomson O.O.O. (Russia)	100.0	100.0
Thomson Pensionsverwaltungs GmbH (Germany)	100.0	100.0
Thomson Plasma S.A.S. (France)	100.0	100.0
Thomson Receivables Corporation (US)		100.0
Thomson R&D Paris S.N.C. (France)	100.0	
Thomson Sales Europe (France) (formerly Thomson multimedia Marketing France)	100.0	100.0
Thomson Sales Germany and Austria GmbH (Germany) (formerly Thomson multimedia Sales Germany and Austria GmbH)	100.0	100.0
Thomson Sales Nordic A.B. (Sweden) (formerly Thomson multimedia Scandinavia A.B.)	100.0	100.0
Thomson Silicon Components S.A.S. (France) (formerly Gallo 17 S.A.S.)	100.0	100.0
Thomson Technology LLC (US)	100.0	
Thomson Telecom Australia Pty Ltd (Australia)	100.0	100.0
Thomson Telecom Belgium N.V. (Belgium)	100.0	100.0
Thomson Telecom España S.A. (Spain)	100.0	100.0
Thomson Telecom México S.A. de C.V. (Mexico)	100.0	100.0
Thomson Telecom S.A. (France)	100.0	100.0
Thomson Television Angers (France)	100.0	100.0

(\*\*) Entities transferred to T.T.E. Corporation



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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Thomson Television Components France (France)	100.0	100.0
Thomson Television España S.A. (Spain)	100.0	100.0
Thomson Tube Components Belo Horizonte Ltda. (Brazil)	100.0	100.0
Thomson Tube Components de Mexico S.A. de C.V. (Mexico)		100.0
Thomson Tubes & Displays S.A. (France)	(***)	) 100.0
Thomson Videoglass (France)		100.0
Videocolor S.p.A. (Italy)	(***)	) 100.0
Vingt Huit Centelec (France) (formerly Ex Camera)	100.0	100.0
<u>Services affiliates</u>		
CD Manufacturing (UK) Ltd. (United Kingdom)	100.0	100.0
Claymont Investments, Inc. (US)	(*)	) 100.0
Consolidated Film Industries, LLC (US)	100.0	100.0
Direct Home Entertainment Ltd. (United Kingdom)	100.0	100.0
Euronimbus S.A. (Luxembourg)	100.0	100.0
Gallo 8 S.A.S. (France)	100.0	100.0
Interecord (Italy)	100.0	100.0
International Recording S.r.l. (Italy)	100.0	100.0
Kay Holdings Ltd (United Kingdom)	100.0	100.0
La Luna de Madrid Digital, S.L. (Spain)		100.0
Metrocolor Laboratories (UK) Ltd. (United Kingdom)	100.0	100.0
Metrocolor London Ltd. (United Kingdom)	100.0	100.0
Naamans Finance Corporation (US)	(*)	) 100.0
Nimbus Manufacturing (UK) Ltd. (United Kingdom)	100.0	100.0
Objectif Ouest (France)	51.0	
Primacor B.V. (Netherlands)	100.0	100.0
PRN Corporation (US)	100.0	
Premier Retail Network Inc. (US)	100.0	
Retail Network Facilities Inc. (US)	100.0	
Technicolor Audio Visual Systems (Rentals) Ltd. (United Kingdom)	100.0	100.0
Technicolor Audio Visual Systems Ltd. (United Kingdom)	100.0	100.0
Technicolor Australia Investments Ltd. (United Kingdom)	100.0	100.0

(\*) Entities merged into others.

(\*\*\*) Entities sold to Videocon.

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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Technicolor B.V. (Netherlands)	100.0	100.0
Technicolor Canada, Inc. (Canada)	100.0	100.0
Technicolor Creative Services Canada, Inc. (Canada) (formerly Covitec, Inc.)	100.0	100.0
Technicolor Creative Services Ltd (Thailand)	100.0	100.0
Technicolor Creative Services USA, Inc. (US)	100.0	100.0
Technicolor Digital Cinema, Inc. (US)	100.0	100.0
Technicolor Digital Cinema, LLC (US)	100.0	100.0
Technicolor Disc Services International Ltd. (United Kingdom)	100.0	100.0
Technicolor Distribution Services France S.A.R.L. (France) (formerly Euronimbus S.A.R.L.)	100.0	100.0
Technicolor Distribution Services Ltd (United Kingdom)	100.0	
Technicolor East Coast, Inc. (US)	100.0	100.0
Technicolor Export de Mexico, S. de R.L. de C.V. (Mexico)	100.0	100.0
Technicolor Entertainment Services, S.L. (Spain) (formerly Madrid Film Lab, S.L.)	100.0	100.0
Technicolor Europe Ltd. (United Kingdom)	100.0	
Technicolor Home Entertainment Services de Mexico, S. de R.L. de C.V. (Mexico)	100.0	100.0
Technicolor Home Entertainment Services Ireland Ltd. (Ireland)	100.0	100.0
Technicolor Home Entertainment Services of America LLC (US)	100.0	100.0
Technicolor Home Entertainment Services, Inc. (US) (formerly Technicolor Videocassette, Inc.)	100.0	100.0
Technicolor Holdings B.V. (Netherlands)	100.0	100.0
Technicolor Holdings of Canada, Inc. (Canada)	100.0	100.0
Technicolor Holdings, Inc. (US)	100.0	100.0
Technicolor Holdings Ltd. (United Kingdom)	100.0	100.0
Technicolor Holdings S.A. de C.V. (Mexico)	100.0	100.0
Technicolor Imaging Ltd. (United Kingdom)	100.0	100.0
Technicolor Investment Company (US)	(*)	) 100.0
Technicolor Laboratory Canada, Inc. (Canada)	100.0	100.0
Technicolor Licensing Ltd (United Kingdom)	100.0	
Technicolor Ltd. (UK) (United Kingdom)	100.0	100.0
Technicolor Mexicana, S.de R.L. de C.V. (Mexico)	100.0	100.0
Technicolor Mexico Acquisition S.A. de C.V. (Mexico)	100.0	100.0
Technicolor Milan S.p.A. (Italy)	100.0	100.0
Technicolor Network Services UK Limited (United Kingdom) (formerly Corinthian Television Facilities Ltd)	77.6	77.6
Technicolor Pty Ltd. (Australia)	100.0	100.0
Technicolor Spain, S.A. (Spain)	100.0	100.0
Technicolor S.p.A. (Italy)	100.0	100.0
Technicolor USA Holdings, Inc. (US)	(*)	) 100.0
Technicolor Video Services (UK) Ltd. (United Kingdom)	100.0	100.0
Technicolor Video Servicios de Mexico, S.A. de C.V. (Mexico)	100.0	100.0

(\*) *Entities merged into others.*



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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
Technicolor Videocassette Holdings Ltd. (UK) (United Kingdom)	100.0	100.0
Technicolor Videocassette of Michigan, Inc. (US)	100.0	100.0
Technicolor Videocassette B.V. (Netherlands)	100.0	100.0
Technicolor Vidtronics Ltd. (United Kingdom)	100.0	100.0
Technicolor, Inc. (US)	100.0	100.0
Technicolor Universal Media Services LLC of America (US)	75.3	74.9
Technicolor (Thailand) Ltd (formerly Cinecolor Lab Co., Ltd.)	100.0	100.0
Technivision Ltd. (UK) (United Kingdom)	100.0	100.0
The Moving Picture Company Blondes Films Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Digital Films Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Holdings Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Liar Liar Pants on Fire Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Picasso Pictures Limited (United Kingdom)	100.0	100.0
The Moving Picture Company Printed Pictures Limited (United Kingdom)	100.0	100.0
The Moving Picture Production Company Limited (United Kingdom)	100.0	100.0
Thomson Australia Holdings Pty Ltd (United Kingdom)	100.0	
VCF Thématiques S.A.S. (France)	51.0	
Vidfilm International Digital Ltd. (United Kingdom)	100.0	100.0
Vidfilm International Digital Subtitling Ltd. (United Kingdom)	100.0	100.0
<b>2) CONSOLIDATED BY PRO RATA METHOD</b>		
3DCD LLC (US)	50.0	50.0
ContentGuard Holdings, Inc. (US)	25.2	
La Luna Titra, S.L. (Spain)	50.0	50.0
Nagra Thomson Licensing (France) (formerly Canal+ Technologies S.A.)	50.0	50.0
Screenvision Acquisitions 10, Inc. (US)	50.0	50.0
Screenvision Acquisitions 20, LLC (US)	50.0	50.0
Screenvision Billboard Holdings, Inc. (US) (formerly Technicolor Cinema Billboard, Inc.)	50.0	50.0
Screenvision Billboard Network, LLC (US) (formerly Cinema Billboard Network, LLC.)	50.0	50.0
Screenvision Cinema Network, LLC (US)	50.0	50.0
Screenvision Direct, Inc. (US) (formerly Val Morgan Cinema Advertising, Inc.)	50.0	50.0
Screenvision Exhibition, Inc. (US) (formerly Technicolor Screen Services, Inc.)	50.0	50.0
Screenvision Holdings, Inc. (US) (formerly Technicolor Screen Advertising, Inc.)	50.0	50.0
Technicolor Cinema Advertising LLC (US)	50.0	50.0
Thomson Broadcast and Media Solutions Nordic A/S (Denmark)	50.0	50.0
Thomson CITIC Digital Technology (People s Republic of China)	50.0	50.0

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Company - (Country)	% share held by Thomson (% rounded to one decimal)	
	December 31, 2005	December 31, 2004
<i>Screenvision Europe affiliates</i>		
Dansk Reklame Films A/S (Denmark) (formerly RMB Dansk Reklame Films A/S)	12.5	12.5
Nordic Media Link A.B. (Sweden)	25.0	25.0
RMB Denmark A/S (Denmark)		25.0
RMB Entertainment S.A. (Belgium)	50.0	50.0
RMB Norway (Norway)	25.0	25.0
RMB Sweden A.B. (Sweden)		25.0
Screenvision Belgium (Belgium) (formerly RMB Cinema)	50.0	50.0
Screenvision Czech S.r.o. (Czech Republic) (formerly RMB Czech Arcona S.r.o.)	50.0	50.0
Screenvision Europe S.A.S. (France) (formerly Gallo 11 S.A.S.)	50.0	50.0
Screenvision Finance S.A.S. (France)	50.0	50.0
Screenvision Finland Oy (Finland) (formerly RMB Finland Oy)	25.0	25.0
Screenvision France S.A.S. (France) (formerly Circuit A SAS)	50.0	50.0
Screenvision Group (Europe) Ltd. (United Kingdom) (formerly RMBI II)	50.0	50.0
Screenvision Holdings (Europe) Ltd. (United Kingdom)	50.0	50.0
Screenvision Holdings S.A.S. (France)	50.0	50.0
Screenvision Netherlands B.V. (Netherlands) (formerly RMB Netherlands)	50.0	50.0
Screenvision Portugal (Portugal) (formerly RMB Portugal)	50.0	50.0
Screenvision Spain S.A. (Spain) (formerly RMB España Multimedia SA)	50.0	50.0
Screenvision Slovakia S.r.o. (Slovakia) (formerly RMB Slovakia S.r.o.)	50.0	50.0
<b>3) CONSOLIDATED BY EQUITY METHOD</b>		
Celstream Technologies Private Ltd. (India)		44.8
CTE El Athir (Tunisia)	30.0	30.0
Easyplug S.A.S. (France)	50.0	50.0
Easyplug, Inc. (US)	50.0	50.0
Metric Line (France)	40.0	40.0
MTEP (US)	12.5	12.5
RF Film, S.A. (Spain)		50.0
Techfund Capital Europe (France)	20.0	20.0
T.T.E Corporation		33.0
TCL Multimedia Technology Holding Ltd	29.3	

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[Back to Index](#)**40 U.S. GAAP reconciliation****40.1 Summary of U.S. GAAP reconciling items impacting consolidated net income and shareholders' equity**

	<b>Years ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Net loss as reported in Consolidated Financial Statements under IFRS</b>	<b>(561</b>	<b>) (573</b>
Less: minority interests	2	(1
<b>Net loss attributable to equity holders in Consolidated Financial Statements under IFRS</b>	<b>(559</b>	<b>) (574</b>
a) Stock options and other share-based payments	(3	) 7
b) Development costs	(16	) (46
c) Convertible debt and other debt	(85	) 17
d) Pension and other post employment benefits	12	(19
f) Restructuring provision	6	(6
g) Recognition of non-contingent part of certain guarantees given	4	(4
h) Sale-and-leaseback transactions	5	5
i) Long-term payable	(1	) (2
j) Hedging activities and other financial instruments	5	(11
k) Change in accounting principle	(43	)
l) Business combination	(8	) (53
m) Cumulative translation adjustment		(34
n) Deemed costs - recognition of certain long-lived assets at fair value	(11	)
Other	6	(1
o) Deferred tax	(7	)
<b>Net loss under U.S. GAAP</b>	<b>(695</b>	<b>) (721</b>
<i>Impacts to our Statement of Operations of above reconciling items are before tax.</i>		

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	As of December 31,	
	2004	2005
	(in millions)	
<b>Equity as reported in Consolidated Financial Statements under IFRS</b>	<b>2,493</b>	<b>2,216</b>
Less: minority interests	(18)	(7)
<b>Equity attributable to equity holders as reported in Consolidated Financial Statements under IFRS</b>	<b>2,475</b>	<b>2,209</b>
b) Development costs	(34)	(84)
c) Convertible debt and other debt	(85)	(500)
d) Pension and other post employment benefits	115	149
e) Commitment to purchase minority interests		
f) Restructuring provision	(60)	(71)
g) Recognition of non-contingent part of certain guarantees given		(4)
h) Sale-and-leaseback transactions	(8)	(4)
i) Long-term payable	(1)	(3)
j) Hedging activities and other financial instruments		8
l) Business combination	102	61
n) Deemed costs - recognition of certain long-lived assets at fair value	6	6
Other	3	9
o) Deferred tax	(21)	(5)
<b>Shareholders' equity under U.S. GAAP</b>	<b>2,492</b>	<b>1,771</b>

*Impacts to our consolidated Shareholders' equity of above reconciling items are before 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 (IFRS). Its main accounting policies are disclosed in Note 2 to the consolidated financial statements. The significant differences of Thomson's accounting policies from U.S. GAAP are described in this note.

##### **(a) Stock options and other 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 be exercised.

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.

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Under U.S. GAAP, all stock options plans are accounted for by Thomson using the intrinsic value as prescribed by APB 25 Accounting for Stock issued to Employees . When stock option plans are amended, which occurred in connection with the public tender offer made by Thomson in September 2004, U.S. GAAP require 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. 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-employee, 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.

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 allow for no recognition of compensation expense. As a result, the first time application exception was applied to stock options plans 1 and 2, the BASA plan, the first award of TTE retention plan and employee offerings (see Note 28).

As a result, the income statement impact related to share-based payment may differs between IFRS and U.S. GAAP as follows:

	IFRS			U.S. GAAP		
	Method of accounting	Compensation expense		Method of accounting	Compensation expense	
		2004	2005		2004	2005
	(in millions)					
Plan 1 (*)	n/a	n/a	n/a	Intrinsic value		
Plan 2 (*)	n/a	n/a	n/a	Intrinsic value		
Plan 3	Fair value	(2 )	(5 )	Intrinsic value (partly variable accounting)	(1 )	(2 )
Plan 4	Fair value	n/a	(1 )	Intrinsic value	n/a	
Plan 5	Fair value	n/a		Intrinsic value	n/a	
TTE retention plan (*)	Fair value	(1 )	(2 )	Fair value	(4 )	(3 )
BASA plan (*)	n/a	n/a	n/a	Intrinsic value		
Inventel / Cirpack Employee offerings (*)	Fair value	n/a	(4 )	Intrinsic value	n/a	
				Intrinsic value	(1 )	
<b>Total</b>		<b>(3 )</b>	<b>(12 )</b>		<b>(6 )</b>	<b>(5 )</b>

(\*) 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 is scoped out).



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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, Thomson's net loss and basic and diluted earnings per share would have reflected the following pro forma amounts:

	<b>Years ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in millions, except earning per share in euro)</b>	
<b>U.S. GAAP net income (loss) available to common shareholders (Note 40.3.2):</b>		
- for basic earning per share calculation	(695 )	(721 )
- for diluted earning per share calculation	(711 )	(793 )
Basic earning (loss) per share	(2.54 )	(2.71 )
Diluted earning (loss) per share	(2.54 )	(2.71 )
Add back: stock-based employee compensation expense included in reported net income net of related tax effects	6	5
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(25 )	(18 )
Pro forma U.S. GAAP net income (loss) available to common shareholders:		
- for basic earning per share calculation	(714 )	(734 )
- for diluted earning per share calculation	(730 )	(806 )
Pro forma basic earning (loss) per share	(2.61 )	(2.75 )
Pro forma diluted earning (loss) per share	(2.61 )	(2.75 )

**(b) Development costs**

Under IFRS, development projects are capitalized and recognized as intangible assets at cost 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).

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.

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Impact of the above differences on the Statements of Operations and Consolidated Balance Sheets are presented in the below table:

	December 31,	
	2004	2005
	(in millions)	
<b>Statement of Operations</b>		
Research and development expense that cannot be capitalized	(16 )	(46 )
Income tax	2	16
Profit (loss) from continuing operations	(14 )	(30 )
Profit (loss) from discontinued operations		
Net income (loss)	(14 )	(30 )
<b>Balance sheet</b>		
Increase (reduction) of other intangible assets (gross value)	(55 )	(125 )
Increase (reduction) of other intangible assets (acc. amortization)	21	41
Increase (reduction) of net equity (*)	(32 )	(66 )

(\*) Of which 2million and 18million of tax for December 31, 2004 and 2005, respectively.

**(c) Convertible debt and other debt**

**(i) Accounting for subordinated perpetual debt**

Under IFRS as detailed in Note 22, 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 interest is due only in the case Thomson pays dividends to its shareholders. Under U.S. GAAP, this financial instrument does not meet the definition of equity and is classified as a financial debt.

In addition, and mainly due to the different nature of the instrument under IFRS and U.S. GAAP, interest costs are not recognized in the income statement at the same time. Under IFRS, interests are not accrued until they are 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 probable, interests are accrued during each period (regardless when the shareholders meeting approves any distribution of dividends).

As a consequence, for the period ended December 31, 2005, Thomson has reported additional interest expenses amounting to 8 million under U.S. GAAP.

**(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. Under U.S. GAAP, interest expense is recognized based on the nominal interest rate and no bifurcation is required.

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 are accounted for entirely as a financial debt at their nominal value, and interests calculated are based on the nominal rate.



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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 24 to our consolidated financial statements) does not imply the recognition of an embedded derivative. 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 decrease the financial expense of the Group under U.S. GAAP compared to IFRS by an amount of 25 million for the year ended December 31, 2005 (nil in 2004).

(iii) Bonds convertible into shares or redeemable in shares

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 for 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 expense in the 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.

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 have required Thomson to recognize an additional non-cash financial expense amounting to 85 million for the year ended December 31, 2004 (nil in 2005), compared to IFRS.

(iv) Costs of debt issuance classification

Under IFRS, the costs related to the issuance of debt are 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, compared to IFRS, other non-current assets and financial debt are increased by 10 million and 20 millions as of December 31, 2004 and 2005 respectively.

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Impacts of the above differences on our Statement of Operations and our Consolidated Balance Sheets are shown in the table below:

	<b>December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Statement of operations</b>		
Financial result	(85	) 17
Income tax		3
Profit (loss) from continuing operations	(85	) 20
Profit (loss) from discontinued operations		
Net income (loss)	(85	) 20
<b>Balance sheet</b>		
Increase (reduction) of other non-current assets	10	20
Increase (reduction) of debt		517
<i>of which short term portion</i>		8
Increase (reduction) of other financial instruments	95	
Increase (reduction) of net equity (*)	(85	) (497

(\*) *Of which \$million of tax as of December 31, 2005.*

**(d) Pension and other post employment benefits**

Differences are mainly due to (i) the impact of the exception provided by IFRS 1 First Time Application, (ii) the additional minimum pension liability recognized under U.S. GAAP that does not exist in IFRS and (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.

Under IFRS, following the transitional provisions of IFRS 1 First Time Application, 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, all IFRS impacts on equity were reversed, and the actuarial gains and losses, at the IFRS transition date and those created on subsequent years, continue to be amortized over the employee's remaining service period. In addition, under U.S. GAAP, the minimum pension liability adjustment is charged to other comprehensive income or intangible asset.

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The net accruals as of December 31, 2004 and 2005 in the accompanying consolidated balance sheets can be compared with balances determined under U.S. GAAP as follows:

	December 31, 2004			December 31, 2005		
	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits
<i>(in millions)</i>						
<b>Net pension accrual under IFRS</b>	<b>(494)</b>	<b>(356)</b>	<b>(850)</b>	<b>(494)</b>	<b>(445)</b>	<b>(939)</b>
Reclassification to other liabilities (*)	28		28	16		16
Reimbursement right recognized as an asset		43	43		65	65
Unrecognized actuarial (gain) loss	114	111	225	145	138	283
Prior service costs	1	(15)	(14)	3	(16)	(13)
Minimum Liability Adjustment	(98)		(98)	(125)		(125)
<b>Net pension accrual under U.S. GAAP before held for sale reclassification</b>	<b>(449)</b>	<b>(217)</b>	<b>(666)</b>	<b>(455)</b>	<b>(258)</b>	<b>(713)</b>
Held for sale reclassification (**)	25		25	1		1
<b>Net pension accrual under U.S. GAAP after held for sale reclassification</b>	<b>(424)</b>	<b>(217)</b>	<b>(641)</b>	<b>(454)</b>	<b>(258)</b>	<b>(712)</b>

(\*) Corresponds to early retirement plans.

(\*\*) Corresponds to Anagni plant pension liabilities classified as held for sale under U.S. GAAP as of December 31, 2004 (not under IFRS since IFRS 5 only applies from January 1, 2005 onwards).

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Additional disclosures in accordance with SFAS 132R are as follows:

	December 31, 2004			December 31, 2005		
	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits
<b>(in millions)</b>						
<b>CHANGE IN BENEFIT OBLIGATION</b>						
<b>Benefit obligation at beginning of the year</b>	<b>(707)</b>	<b>(436)</b>	<b>(1,143)</b>	<b>(646)</b>	<b>(298)</b>	<b>(944)</b>
Reclassification of early retirement plans and jubilee awards under other reserves (*)	38		38			
Service cost	(23)	(4)	(27)	(18)	(2)	(20)
Interest cost	(33)	(20)	(53)	(31)	(19)	(50)
Amendments	(3)	103	100			
Business combinations	9		9	24		24
Plan participants contributions	(1)	(4)	(5)	(1)	(7)	(8)
Curtailement / Settlement	46	5	51	48		48
Actuarial (loss) gain	(27)	17	(10)	(45)	(12)	(57)
Benefits paid	37	19	56	30	22	52
Change in measurement date				12	(3)	9
Others (foreign currency translation)	18	22	40	(36)	(47)	(83)
<b>Benefit obligation at end of year</b>	<b>(646)</b>	<b>(298)</b>	<b>(944)</b>	<b>(663)</b>	<b>(366)</b>	<b>(1,029)</b>
<b>CHANGE IN PLAN ASSETS</b>						
<b>Fair value of plan assets at beginning of the year</b>	<b>221</b>		<b>221</b>	<b>184</b>		<b>184</b>
Actual return on plan assets	21		21	19		19
Thomson contribution	16		16	24		24
Plan participants contributions	1		1	1		1
Curtailement / Settlement	(55)		(55)	(45)		(45)
Business combinations	(2)		(2)			
Benefits paid	(8)		(8)	(9)		(9)
Change in measurement date				(12)		(12)
Others (foreign currency translation)	(10)		(10)	21		21
<b>Fair value of plan assets at end of year</b>	<b>184</b>		<b>184</b>	<b>183</b>		<b>183</b>
<b>Funded status of the plan</b>	<b>(462)</b>	<b>(298)</b>	<b>(760)</b>	<b>(480)</b>	<b>(366)</b>	<b>(846)</b>
Unrecognized actuarial (gains) or losses	114	110	224	145	138	283
Unrecognized actuarial prior service cost	(3)	(29)	(32)		(30)	(30)
Unrecognized actuarial transition obligation						
<b>Prepaid (Accrued) benefit cost</b>	<b>(351)</b>	<b>(217)</b>	<b>(568)</b>	<b>(335)</b>	<b>(258)</b>	<b>(593)</b>

(\*) Jubilee awards and early retirement plans are classified under other reserves .

For Thomson's defined benefit pension plans, the benefit obligation and the accumulated benefit obligation were in excess of plan assets at December 31, 2004 and 2005. The accumulated benefit obligation ABO was equal to 614 million and 607 million as of December 31, 2004 and 2005 respectively.





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Amounts recognized in the Consolidated Balance Sheet are as follows:

	December 31, 2004			December 31, 2005		
	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits
	(in millions)					
<b>Prepaid (Accrued) benefit cost</b>	<b>(351)</b>	<b>(217)</b>	<b>(568)</b>	<b>(335)</b>	<b>(258)</b>	<b>(593)</b>
Minimum Liability Adjustment (MLA):						
Included in other comprehensive income	(97)		(97)	(124)		(124)
Included in intangible asset	(1)		(1)	(1)		(1)
Total Minimum Liability Adjustment	(98)		(98)	(125)		(125)
Accrued benefit liability (including MLA)	(449)	(217)	(666)	(460)	(258)	(718)
Prepaid benefit cost						
<b>Net amount accrued for under U.S. GAAP before held for sale reclassification</b>	<b>(449)</b>	<b>(217)</b>	<b>(666)</b>	<b>(460)</b>	<b>(258)</b>	<b>(718)</b>
Held for sale reclassification	25		25	6		6
<b>Net amount accrued for under U.S. GAAP after held for sale reclassification</b>	<b>(424)</b>	<b>(217)</b>	<b>(641)</b>	<b>(454)</b>	<b>(258)</b>	<b>(712)</b>

Amounts recognized in the Statement of Operations are as follows:

	For years ended					
	December 31, 2004			December 31, 2005		
	Pension benefits	Other benefits	Total benefits	Pension benefits	Other benefits	Total benefits
	(in millions)					
<b>Annual cost under U.S. GAAP</b>						
Service cost	(23)	(4)	(27)	(18)	(2)	(20)
Expected interest cost	(33)	(20)	(53)	(31)	(19)	(50)
Expected return on plan assets	13		13	11		11
Amortization of unrecognized prior service cost	(1)	4	3		3	3
Amortization of actuarial net losses or (gains)	(4)	(7)	(11)	(4)	(7)	(11)
Amortization of net transition obligation	(2)		(2)			
Effect of curtailment/settlement	(15)	33	18	(4)		(4)
<b>Net periodic benefit cost</b>	<b>(65)</b>	<b>6</b>	<b>(59)</b>	<b>(46)</b>	<b>(25)</b>	<b>(71)</b>

Net periodic benefit cost under U.S. GAAP recorded in Income from continuing operation before interest and tax amounts to 49 million and to 42 million for the years ended December 31, 2005 and 2004, respectively.

The following benefit payments, which reflect expected future services, are expected to be made for the next five years:

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	<u>Pension benefits</u>	<u>Other benefits</u>	<u>Total benefits</u>
	(in millions)		
2006	54	21	75
2007	77	22	99
2008	38	23	61
2009	38	23	61
2010	38	22	60
5 years thereafter	243	119	362

The measurement date of the projected benefit obligation and the fair value of the plan assets is December 31, each year.

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One of Thomson subsidiary in Netherlands takes part of a multi-employer defined benefit plan ( Metalelektro ). Thomson accounts for this plan as a defined contribution plan and has contributed 2 million and 2 million for years ended December 31, 2004 and 2005 respectively.

**(e) 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 fair value of the purchase consideration under the put option, with as counterpart reversal of existing minority interests and the balance 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 EITF 00-04 Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in that Subsidiary, embedded put option 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, 2004 and 2005, Thomson issued 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 as of December 31, 2005 under U.S. GAAP minority interests on the balance sheet are increased by 8 million, while goodwill is decreased by 4 million, and other debt is decreased by 12 million.

**(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 provide additional criteria to recognize a liability in comparison with IAS 37. Thus, SFAS 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, SFAS 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:

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	December 31, 2004	Current year expense	Cash payments	Release of reserve to income	Change in scope of conso- lidation	Other	Held for sale	December 31, 2005
<i>(in millions)</i>								
<b>IFRS restructuring reserve</b>	<b>76</b>	<b>130</b>	<b>(92)</b>	<b>(17)</b>	<b>(17)</b>	<b>8</b>	<b>(34)</b>	<b>54</b>
Non-specific voluntary termination offer not accepted at balance sheet date	(2)	)				1		(1)
Non-specific involuntary termination arrangements	(3)	) (1)	)			1		(3)
Future losses 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
<b>Total U.S. GAAP adjustments</b>	<b>(8)</b>	<b>) (7)</b>	<b>) 8</b>		<b>1</b>		<b>1</b>	<b>(5)</b>
Reclassification of asset write downs	(1)	) (5)	)	3		2		(1)
Reclassification to other cost of Sales		(1)	)			1		
<b>Total U.S. GAAP reclassifications</b>	<b>(1)</b>	<b>) (6)</b>	<b>)</b>	<b>3</b>		<b>3</b>		<b>(1)</b>
<b>U.S. GAAP restructuring reserve</b>	<b>67</b>	<b>117</b>	<b>(84)</b>	<b>(14)</b>	<b>(16)</b>	<b>11</b>	<b>(33)</b>	<b>48</b>

	December 31, 2004	Current year expense	Cash payments	Release of reserve to income	Change in scope of conso- lidation	Other	Held for sale	December 31, 2005
<i>(in millions)</i>								
Employee termination benefits	29	84	(58)	(13)	(18)	8	(18)	14
Other costs	38	33	(26)	(1)	2	3	(15)	34
<b>U.S. GAAP restructuring reserve</b>	<b>67</b>	<b>117</b>	<b>(84)</b>	<b>(14)</b>	<b>(16)</b>	<b>11</b>	<b>(33)</b>	<b>48</b>

Reconciliation of restructuring expense is as follows:

**For the year ended December 31, 2005**

	Restructuring charge	Other Statement of Operations captions impact	Net income impact
<i>(in millions)</i>			
<b>Restructuring expense under IFRS</b>	<b>(113)</b>		
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 gain (loss) (*)		(1)	(1)
Other		(4)	(4)
<b>Total impact of U.S. GAAP adjustments and reclassifications</b>	<b>10</b>	<b>(16)</b>	<b>(6)</b>
<b>Restructuring expense under U.S. GAAP</b>	<b>(103)</b>		

(\*) Related change in scope adjustment corresponds to disposals.

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	December 31, 2003	Current year expense	Cash payments	Release of reserve to income	Change in scope of conso- lidation	Other	Held for sale	December 31, 2004
(in millions)								
<b>IFRS restructuring reserve</b>	<b>95</b>	<b>820</b>	<b>(195 )</b>	<b>(19 )</b>	<b>2</b>	<b>(627 )</b>		<b>76</b>
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 (*)	9	(9 )						
Other adjustment including non-eligible asset write downs		(5 )	5		3	(2 )		1
<b>Total U.S. GAAP adjustments</b>	<b>(9 )</b>	<b>(19 )</b>	<b>13</b>		<b>9</b>	<b>(2 )</b>		<b>(8 )</b>
Curtailment on post employment reserve (**)		(43 )			2	41		
Reclassification of asset write downs	(1 )	(597 )			(5 )	602		(1 )
Reclassification to other cost of sales		(11 )				11		
<b>Total U.S. GAAP reclassifications</b>	<b>(1 )</b>	<b>(651 )</b>			<b>(3 )</b>	<b>654</b>		<b>(1 )</b>
<b>U.S. GAAP restructuring reserve</b>	<b>85</b>	<b>150</b>	<b>(182 )</b>	<b>(19 )</b>	<b>8</b>	<b>25</b>		<b>67</b>

(\*) 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.

(\*\*) 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.

Other

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	December 31, 2003	Current year expense	Cash payments	Release of reserve to income	Change in scope of conso- lidation	Held for sale	December 31, 2004
	(in millions)						
Employee termination costs	74	98	(159 )	(7 )	4	19	29
Other costs	11	52	(23 )	(12 )	4	6	38
<b>U.S. GAAP restructuring reserve</b>	<b>85</b>	<b>150</b>	<b>(182 )</b>	<b>(19 )</b>	<b>8</b>	<b>25</b>	<b>67</b>

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Reconciliation of restructuring expense is as follow:

	<b>For the year ended December 31, 2004</b>		
	<b>Restructuring charge</b>	<b>Other Statement of Operations captions impact</b>	<b>Net income impact</b>
	(in millions)		
<b>Restructuring expense under IFRS</b>	<b>(801</b>	<b>)</b>	
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	)
Change in scope - impact on capital gain (loss) (*)			(13
<b>Total impact of U.S. GAAP adjustments and reclassifications</b>	<b>670</b>	<b>(664</b>	<b>) 6</b>
<b>Restructuring expense under U.S. GAAP</b>	<b>(131</b>	<b>)</b>	

(\*) 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 Guarantors 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 amortized over the period of the term of the guarantees and related amortization charge is recorded in the caption Selling, general, administrative expenses and others in the Statement of Operations.

	<b>December 31,</b>	
	<b>2004</b>	<b>2005</b>
	(in millions)	
<b>Statement of operations</b>		
Selling, general, administrative expenses and others	4	(2
Income tax		)
Profit (loss) from continuing operations	4	(2
Profit (loss) from discontinued operations		(2
Net income (loss)	4	(4
<b>Balance sheet</b>		)



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Increase (reduction) of other reserves	4
Increase (reduction) of net equity	(4 )
	<hr/>

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**(h) Sale-and-leaseback transactions**

IFRS requires 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 for portions of those 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) 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 arm 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 for the portion of 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, 2004 and 2005 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 realized under 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 4 million in each of the years ended December 31, 2004 and 2005.

In addition, the unrecognized gain amounted to 8 million and 4 million as of December 31, 2004 and 2005 respectively ( 4 million and 3 million for U.S. corporate headquarters and 4 million and 1 million for French headquarters).

**(i) Long-term payable**

Under IFRS, IAS 39 Financial Instruments: Recognition and Measurement requires long term payable 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 requires that a liability be measured at its discounted value only when the timing and the amount of future cash outflows are fixed or reliably determinable.

As of December 31, 2004 and 2005, Thomson recognized certain liabilities that are expected to be settled with a cash payment in more than 12 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 timing and value of the future cash outflows are uncertain.

Under IFRS, the accretion effect is recognized as a financial expense.

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For the period ended December 31, 2004 and 2005, the impact on our Statement of Operations and our Balance Sheets of these differences is summarized in the table below.

	<b>December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<hr/>	<hr/>
	<b>(in millions)</b>	
<b>Statement of operations</b>		
Cost of sales	(1 )	(3 )
Financial result		
Income tax		1
	<hr/>	<hr/>
Profit (loss) from continuing operations	(1 )	(2 )
Profit (loss) from discontinued operations		
	<hr/>	<hr/>
Net income (loss)	(1 )	(2 )
<b>Balance sheet</b>		
Increase (reduction) of other provisions	1	3
Increase (reduction) of net equity (*)	(1 )	(2 )
	<hr/>	<hr/>

(\*) *Of which million of tax as of December 31, 2005.*

**(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 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 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 unrealized gains or temporary declines in the 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 SFAS 115, similar treatment is required for similar designated financial assets. Under SFAS 115, restricted equity securities do not have readily determinable fair value and therefore cannot be designated as available for sale.

As of December 31, 2005, Thomson holds 240 million of Videocon Industries equity securities, 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.

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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 8 million under U.S. GAAP.

(iii) Call option

In 2004, in connection with the TTE transaction with TCL International (see Note 5), 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.

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 (see Note 5), 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 another 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 year-end 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 remeasurement additional financial expense).

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For the period ended December 31, 2004 and 2005, financial impacts of hedging activities and other financial instruments on our Statement of Operations and our Balance Sheets of such differences are summarized in the table below.

	December 31,	
	2004	2005
	(in millions)	
<b>Statement of operations</b>		
Revenue	(10 )	(11 )
Cost of sales	11	
Selling, general, administrative expenses and other		
Financial income	4	
Income tax		(3 )
Profit (loss) from continuing operations	5	(14 )
Profit (loss) from discontinued operations		
Net income (loss)	5	(14 )
<b>Balance sheet</b>		
Increase (reduction) of non-current assets	6	8
Increase (reduction) of current assets	10	
Increase (reduction) of financial debt	8	
Increase (reduction) of non-current liabilities		3
Increase (reduction) of other current liabilities	8	
Increase (reduction) of net equity (*)		5

(\*) Of which (3) million of tax as of December 31, 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



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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.

**(I) Business combination**

(i) Differences due to specific exemptions provided by IFRS 1

Under IFRS in accordance with IFRS 1 First Time Application the Group has opted to not 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 exist 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:

- 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;
- the accounting of our acquisition of the 33% minority interest of Philips Broadcast made in 2001;
- 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;
- easyplug gain on asset contribution;
- certain retention bonuses, for which related benefits were charged against goodwill under French GAAP, while charged as compensation expense under U.S. GAAP.

(ii) Deferred tax impact on business combinations

Under IFRS, in accordance with IAS 12 Income Tax , the recognition of deferred taxes 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 charged against tax income in that 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 unrecognized deferred tax assets. As a consequence an amount of 51 million was charged against tax income under IFRS, but against goodwill under U.S. GAAP.



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For the periods ended December 31, 2004 and 2005, impacts on our Statement of Operations and Thomson's Balance Sheets of such differences are summarized in the table below.

	December 31,	
	2004	2005
	(in millions)	
<b>Statement of operations</b>		
Selling, general, administrative expenses and other	(8 )	
Income tax		(51 )
Profit (loss) from continuing operations	(8 )	(51 )
Profit (loss) from discontinued operations		(2 )
Net income (loss)	(8 )	(53 )
<b>Balance sheet</b>		
Increase (reduction) of goodwill	105	64
Increase (reduction) of equity investment	(3 )	(3 )
Increase (reduction) of net equity (*)	102	61

(\*) Of which (52) million of tax for December 31, 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, 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).

**(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 11 million and nil for the years ended December 31, 2004 and 2005 respectively with a counterpart booked in the goodwill for 5 million.

**(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 (7) million and nil for the period ended December 31, 2004 and 2005 respectively.

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[Back to Index](#)**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 accounting primary 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:

	<b>For the years ended December 31,</b>	
	<b>2004</b>	<b>2005</b>
	<b>(in millions)</b>	
<b>Net income (loss) in accordance with U.S. GAAP (before other comprehensive income)</b>	<b>(695</b>	<b>) (721</b>
<b>Other comprehensive income (loss):</b>		
Change in foreign currency translation adjustments	(111	) 243
Changes in unrealized holding gains on securities	5	(16
Changes in unrealized holding losses from cash flow hedges		4
Change in Minimum Liability Adjustment	(12	) (27
Tax effect of the above adjustments		
<b>Other comprehensive income (loss), net of tax</b>	<b>(118</b>	<b>) 204</b>
<b>Comprehensive income (loss) under U.S. GAAP</b>	<b>(813</b>	<b>) (517</b>

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.

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	MLA	CTA	Net unrealized gain	Total
	(in millions)			
<b>2004</b>				
Balance at the beginning of the year	(85 )	(600 )	11	(674 )
Current year change	(12 )	(111 )	5	(118 )
<b>Balance at the end of the year</b>	<b>(97 )</b>	<b>(711 )</b>	<b>16</b>	<b>(792 )</b>
<b>2005</b>				
Balance at the beginning of the year	(97 )	(711 )	16	(792 )
Current year change	(27 )	243	(12 )	204
<b>Balance at the end of the year</b>	<b>(124 )</b>	<b>(468 )</b>	<b>4</b>	<b>(588 )</b>

#### 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:

	2004	2005
	(in millions unless otherwise stated)	
Income (loss) from continuing operations	213	76
Dilutive effect (*)	(16 )	(72 )
Income (loss) from continuing operations available to common shareholders	197	4
Income (loss) from discontinued operations	(865 )	(797 )
Cumulative effect of change in accounting principle	(43 )	
Net income (loss) available to common shareholders for basic calculation	(695 )	(721 )
Net income (loss) available to common shareholders for diluted calculation	(711 )	(793 )
Average number of shares basic under U.S. GAAP (in thousand of shares)	273,647	266,540
Average number of shares diluted under U.S. GAAP (in thousand of shares) (**)	298,684	293,962
<b>Earnings per share according to U.S. GAAP on income (loss) from continuing operations (in euros):</b>		
Basic	0.78	0.28
Diluted	0.66	0.01
<b>Earnings per share according to U.S. GAAP on income (loss) from discontinued operations (in euros):</b>		
Basic	(3.16 )	(2.99 )
Diluted(***)	(3.04 )	(2.72 )
<b>Earnings per share according to U.S. GAAP on cumulative effect of accounting change (in euros):</b>		
Basic	(0.16 )	
Diluted	(0.16 )	
<b>Earnings per share according to U.S. GAAP on net income (in euros):</b>		
Basic	(2.54 )	(2.71 )
Diluted	(2.54 )	(2.71 )

(\*) For year ended December 31, 2004, mainly relates 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. For year ended December 31, 2005, relates mainly to the Silverlake USD convertible bond impact.

(\*\*) Difference with average number of shares used for earning per share calculation under IFRS relates to IFRS 1 exemption.

(\*\*\*) Computed by difference.

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Reconciliation from basic earnings per share to diluted earnings per share:

	<u>Profit from continuing operations</u>	<u>Number of Shares</u>	<u>Per share amounts</u>
	<u>(numerator)</u>	<u>(denominator)</u>	
<i>2005</i>	<i>(in millions)</i>	<i>(in thousand of shares)</i>	<i>(in euros)</i>
Earnings per share according to U.S. GAAP (basic)	76	266,540	0.28
<i>Dilutive effect:</i>			
BASA		1,964	0.28
Silverlake convertible	(69	) 23,417	0.02
Call option issued to TCL	(3	) 98	0.01
Stock option plans		1,943	0.01
Earnings per share according to U.S. GAAP (diluted)	4	293,962	0.01

As of year ended December 31, 2005, in addition to the OCEANEs 2006 and 2008 (Note 24), promissory note issued to Carlton in connection with the Technicolor acquisition (Note 30), Thomson 2005 stock options plans and stock options plans granted in connection with the acquisition of Inventel and Cirpack (Note 28) are not included in the diluted earnings per share calculation because they would have been considered as antidilutive.

	<u>Profit from continuing operations</u>	<u>Number of Shares</u>	<u>Per share amounts</u>
	<u>(numerator)</u>	<u>(denominator)</u>	
<i>2004</i>	<i>(in millions)</i>	<i>(in thousand of shares)</i>	<i>(in euros)</i>
Earnings per share according to U.S. GAAP (basic)	213	273,647	0.78
<i>Dilutive effect:</i>			
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	0.66
Stock option plan		128	0.66
Earnings per share according to U.S. GAAP (diluted)	197	298,684	0.66

As of year ended 2004, OCEANE 2006 and call option granted to TCL are not included in the diluted earning per share calculation because they would have been antidilutive.

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[Back to Index](#)**40.3.3 Discontinued operation**

According to the provisions of SFAS 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:

	<b>For the periods ended December 31,</b>			
	<b>2004 as reported</b>	<b>Effect of additional classification (*)</b>	<b>2004 as revised</b>	<b>2005</b>
	<b>(in millions)</b>			
Income from continuing operations before income taxes	(262	) 567	305	198
Income taxes	(123	) 31	(92	) (122
Income (loss) from continuing operations	(385	) 598	213	76
<b>Discontinued operations:</b>				
Gain (loss) on discontinued operations	(284	) (596	) (880	) (791
Income tax benefit	17	(2	) 15	(6
Gain (loss) on discontinued operations	(267	) (598	) (865	) (797
Net income (loss) before cumulative effect of change in accounting principle	(652	) (652	) (721	) (721
Change in accounting principle	(43	) (43	) (43	) (43
Net income (loss)	(695	) (695	) (721	) (721

(\*) *Additional classification to reflect discontinued operations recorded in 2005.*

**40.3.4 Combined information concerning pro rata consolidated entities**

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 December 31, 2005 and 2004.

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The following table presents the entities consolidated under pro rata method which summarized financial information is disclosed below:

	<u>2004</u>	<u>2005</u>
Contentguard Holdings Inc.		X
Thomson CITIC Digital Technology	X	X
Nagra Thomson Licensing	X	X
La luna Titra	X	X
Thomson Broadcast and Media Solutions Nordic A/S	X	X
ScreenVision Europe entities sub-group (Note 39)	X	X
Screenvision Billboard Network, LLC	X	X
Screenvision Cinema Network, LLC	X	X
Screenvision Direct, Inc. (ex - Val Morgan Cinema Adv. Inc.)	X	X
Screenvision Billboard Holdings, Inc.	X	X
Screenvision Holdings, Inc (US) (formerly Technicolor Screen Advertising)	X	X
Technicolor Cinema Advertising LLC	X	X
Screenvision Acquisition 10, Inc	X	X
Screenvision Acquisition 20, LLC	X	X
Screenvision Exhibition, Inc	X	X
3DCD LLC	X	X

**December 31,**

<u>2004</u>	<u>2005</u>
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(in millions)

**Balance sheet**

Non-current assets	42	59
Current assets	59	71
Non-current liabilities	10	12
Current liabilities	75	89

**Income statement**

Sales	84	98
Gross margin	31	38
EBIT	6	6
Net income	3	4

**Cash flow statement**

Cash flow from operating activities	3	23
Cash flow from investing activities	(2	) (6
Cash flow from financing activities	(3	) )

*Figures from IFRS consolidated financial statements before elimination of discontinued operations and held for sale balance sheet amounts.*



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#### 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 amortised over their estimated useful life.

The impairment test for goodwill involves a two-step process. Step one consists of a comparison of a reporting unit's 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 for goodwill is determined based on discounted cash flows, market multiple or appraised values, as appropriate. If the carrying value is greater than its fair value, goodwill is impaired.

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 December 31, 2004 and 2005.

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 year ended December 31, 2005.

#### 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 fair value is recorded as an impairment charge. Thomson completed the impairment test for these assets as of December 31, 2004 and 2005 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 year ended December 31, 2004 and 2005 related to indefinite lived intangibles assets.

Intangible assets acquired subject to amortization mainly consist of:

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; acquisition 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).

The aggregate amortization expense for intangible assets for the year ended December 31, 2004 and 2005 was 63 million and 105 million, respectively.

No indefinite-lived intangible assets were acquired during the year ended December 31, 2004.

Indefinite-lived intangible assets acquired during the year ended December 31, 2005 amounted to 5 million.

The carrying amount of indefinite-lived intangible assets reached 289 million and 316 million as of December 31, 2004 and 2005, respectively and was primarily related to Technicolor trademark, which is denominated in U.S. Dollars. As a consequence, changes in the carrying amount mainly result from the impact of the conversion in euros of USD denominated intangible assets during 2004 and 2005.

The in-progress research and development assets acquired and written off in the years ended December 31, 2004 and 2005 amounted to 2 million and 10 million, respectively.

Under U.S. GAAP, the aggregate amount of goodwill as of December 31, 2004 and 2005 amounted to 1,268 million and 1,804 million, respectively, and is broken down as follows by reportable segment.

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	<u>December 31, 2004 (*)</u>	<u>Change in goodwill</u>	<u>Impairment or disposal</u>	<u>CTA</u>	<u>Held for sale reclas- sification</u>	<u>December 31, 2005 (*)</u>
	<u>(in millions)</u>					
Services	920	117		137		1,174
Systems & Equipment	330	257		15		602
Technology		25		3		28
Display & CE Partnership	18		(9 )		(9 )	
<b>Total</b>	<b>1,268</b>	<b>399</b>	<b>(9 )</b>	<b>155</b>	<b>(9 )</b>	<b>1,804</b>

(\*) Goodwill on pro rata consolidated entities is not included in the figures above (amounting to 46million and 5million as of December 31, 2004 and 2005 respectively and mainly related to Screenvision entities).

	<u>December 31, 2003 (*)</u>	<u>Change in goodwill</u>	<u>Impairment or disposal</u>	<u>CTA</u>	<u>December 31, 2004 (*)</u>
	<u>(in millions)</u>				
Services	882	86		(48 )	920
Systems & Equipment	310	27		(7 )	330
Technology					
Display & CE Partnership	6	21	(7 )	(2 )	18
<b>Total</b>	<b>1,198</b>	<b>134</b>	<b>(7 )</b>	<b>(57 )</b>	<b>1,268</b>

(\*) Goodwill on pro rata consolidated entities is not included in the figures above (amounting to 53million and 46million as of December 31, 2003 and 2004 respectively and mainly related to Screenvision entities).

#### 40.3.6 Recently issued accounting pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), which replaces SFAS No. 123, Accounting for Stock-Based Compensation, ( SFAS 123 ) and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. Thomson is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, Thomson must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. Under the retroactive option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for the remaining part of all unvested stock options and restricted stock starting at the beginning of the first quarter of adoption of SFAS 123R, while the retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. Thomson is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will have a material impact on Thomson's consolidated results of operations and earnings per share. Thomson has not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not determined whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs An Amendment of ARB No. 43, Chapter 4 ( SFAS 151 ). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing to clarify that abnormal amounts of idle facility expense, excessive spoilage, freight, and handling costs

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are to be recognized as current-period charges regardless of whether they meet the criterion of so abnormal as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by Thomson beginning on January 1, 2006. Thomson is currently assessing the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition, but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets An Amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions ( SFAS 153 ). SFAS 153 amended APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. SFAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 and is required to be adopted by Thomson beginning on January 1, 2006. The provisions of SFAS 153 are required to be applied prospectively.

Thomson is currently assessing the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition, but does not expect SFAS 153 to have a material impact.

In May 2005, the FASB Issued Statement of Financial Accounting Standards No. 154 ( SFAS 154 ), Accounting Changes and Error Corrections. Statement 154 replaces APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle, and requires the retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 will only have an effect when Thomson implements changes in accounting principle that are addressed by the standard or corrects accounting errors in future periods.

In June 2005, the Emerging Issues Task Force addressed an employer's accounting for early retirement programs supported by the German Government in Issue 05-5, ( EITF 05-05 ) Accounting for Early Retirement Program or Postemployment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements (ATZ) ). The Task Force reached a consensus in EITF 05-5 that benefits provided under Type II ATZ arrangements (as defined) should be accounted for as a termination benefit under SFAS 112, Employers Accounting for Post employment Benefits, with recognition of the benefits costs over the service periods, commencing at the time the individual employees enroll in the ATZ arrangements. The consensus is effective for periods beginning after December 15, 2005. Thomson is currently assessing the effect that the adoption of EITF 05-5 will have on its consolidated results of operations and financial condition, but does not expect EITF 05-5 to have a material impact.

In July 2005, the FASB issued FSP APB 18-1 ( FSP APB 18-1 ), Accounting by an Investor for its Proportionate Share of Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence . The FSP requires that if an investor loses significant influence over an investee, the investor's proportionate share of the investee's equity adjustments for Other Comprehensive Income should be offset against the carrying value of the investment at the time significant influence is lost by the investor. Thomson will adopt the provisions of FSP APB 18-1 in the reporting period beginning on January 1, 2006. Thomson does not expect the adoption of FSP APB 18-1 to have a material impact on its consolidated financial position or results of operations since Thomson's accounting policy was already in accordance with FSP APB 18-1.

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In October 2005, the FASB issued FSP FAS 13-1, *Accounting for Rental Costs Incurred during a Construction Period*. The FSP concludes that rental costs associated with ground or building operating leases that are incurred during a construction period should be recognized as rental expense. Thomson will apply the guidance in this FSP to the first reporting period beginning after December 15, 2005 and will cease capitalizing rental costs as of January 1, 2006 for operating lease arrangements entered into prior to that date. Thomson does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which effectively nullifies the requirements of EITF Issue No. 03-1. This FSP provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Additionally, the FSP provides accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Thomson will adopt the provisions of this FSP in the reporting period beginning January 1, 2006. Thomson does not expect the adoption of this FSP to have a material impact on its consolidated financial position or results of operations.

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 ( *SFAS 155* ). SFAS 155 amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( *SFAS 133* ), and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS 155 among other things permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 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 has not yet determined the method of adoption or the effect of adopting SFAS 155.

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## VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	<u>Opening balance</u>	<u>Charged to costs and expenses</u>	<u>Reversal of provisions</u>	<u>Usage</u>	<u>Other movements (*)</u>	<u>Closing balance</u>
	(in millions)					
<b>2005</b>						
Trade accounts and notes receivables	41	22	(6 )	(10 )	4	51
Other investments	86	1		(16 )	1	72
<b>2004</b>						
Trade accounts and notes receivables	48			(11 )	4	41
Other investments	86	4	(4 )	(3 )	3	86

(\*) Includes change in scope of consolidation and currency translation adjustments.

**40.4 Condensed Statements of Operations and Balance Sheets under U.S. GAAP as of December 31, 2004 and 2005 and for years ended thereof**

	<u>For years ended December 31,</u>	
	<u>2004</u>	<u>2005</u>
	(in millions)	
<b>Continuing operations:</b>		
Revenues from continuing operations	6,028	5,680
<b>Gross margin</b>	<b>1,403</b>	<b>1,356</b>
Selling, General & administrative expenses & others	(769 )	(795 )
Research & Development expenses	(226 )	(281 )
<b>Profit from continuing operations and before tax and financial result</b>	<b>408</b>	<b>280</b>
<b>Financial result</b>	<b>(84 )</b>	<b>1</b>
Share of income (loss) from associates	(20 )	(82 )
Income tax	(92 )	(122 )
Minority interests	1	(1 )
<b>Profit from continuing operations attributable to equity holders</b>	<b>213</b>	<b>76</b>
<b>Discontinued operations:</b>		
Loss from discontinued operations	(865 )	(797 )
<b>Net income (loss) attributable to equity holders before cumulative effect of accounting change</b>	<b>(652 )</b>	<b>(721 )</b>
Cumulative effect of accounting change	(43 )	
<b>Net income (loss) attributable to equity holders after cumulative effect of accounting change</b>	<b>(695 )</b>	<b>(721 )</b>

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	As of December 31,	
	2004	2005
	(in millions)	
<b>ASSETS</b>		
<b>Non-current assets:</b>		
Goodwill, net (*)	1,314	1,855
Other intangible assets, net	886	1,068
Property, plant & equipment	1,014	875
Other non-current assets	621	1,100
	<b>3,835</b>	<b>4,898</b>
<b>Current assets:</b>		
Inventories	510	333
Trade accounts & notes receivable	1,157	1,315
Cash and cash equivalents	1,843	996
Other current assets	1,008	711
	<b>4,518</b>	<b>3,355</b>
<b>Assets held for sale</b>	<b>101</b>	<b>371</b>
<b>Total assets</b>	<b>8,454</b>	<b>8,624</b>
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		
<b>Non-current liabilities:</b>		
Borrowings	1,591	1,368
Reserve for post-employment benefits	576	650
Other non-current liabilities	220	434
	<b>2,387</b>	<b>2,452</b>
<b>Current liabilities:</b>		
Borrowings	904	1,459
Reserve for post-employment benefits	65	62
Other current liabilities	2,410	2,395
	<b>3,379</b>	<b>3,916</b>
<b>Minority interests</b>	<b>18</b>	<b>15</b>
<b>Shareholders equity</b>	<b>2,492</b>	<b>1,771</b>
<b>Liabilities held for sale</b>	<b>178</b>	<b>470</b>
<b>Total liabilities &amp; shareholders equity</b>	<b>8,454</b>	<b>8,624</b>

(\*) Including goodwill recognized on pro rata consolidated entities.

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

YEARS ENDED 31 DECEMBER 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 sheet of TCL Multimedia Technology Holdings Limited (the Company) and its subsidiaries (collectively the Group) as of 31 December 2005 and the related consolidated income statement, summary statement of changes in equity and cash flow statement for the year then ended. 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 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. 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 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 the Group at 31 December 2005 and the consolidated results of its operations and cash flows for the year then ended 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 48 to the consolidated financial statements.

Ernst & Young

Certified Public Accountants

Hong Kong

7 June 2006

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
TURNOVER	5	34,556,330	25,599,840
Cost of sales		(28,922,981)	(21,225,303)
Gross profit		5,633,349	4,374,537
Other revenue and gains		252,214	162,203
Selling and distribution costs		(4,289,591)	(2,825,919)
Administrative expenses		(1,241,008)	(874,133)
Research and development costs		(506,402)	(264,403)
Other operating expenses		(183,243)	(83,232)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(334,681)	489,053
Fair value losses of equity investments at fair value through profit or loss/impairment of short term investments		(95,083)	(29,026)
Amortisation of goodwill on acquisition of jointly-controlled entities			(57,321)
Finance costs	7	(163,546)	(65,715)
Share of profits and losses of jointly-controlled entities	18	9,212	80,464
PROFIT/(LOSS) BEFORE TAX		(584,098)	417,455
Tax	10	(119,169)	(129,511)
PROFIT/(LOSS) FOR THE YEAR		(703,267)	287,944
Attributable to:			
Equity holders of the parent		(598,893)	308,985
Minority interests		(104,374)	(21,041)
		(703,267)	287,944
DIVIDENDS	11		
Interim			110,316
Distribution in specie			1,351,585
Proposed final			110,346
			1,572,247

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EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO  
ORDINARY EQUITY HOLDERS OF THE PARENT

12

Basic

HK(18.66) cents

HK11.29 cents

Diluted

N/A

8.85 cents

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

31 December 2005

(With unaudited comparative figures as of 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	2,722,422	2,389,683
Prepaid land lease payments	14	62,623	54,914
Goodwill	15	206,639	206,639
Negative goodwill	15		(548,016 )
Other intangible assets	16	91,993	26,506
Interests in jointly-controlled entities	18	157,088	146,375
Available-for-sale equity investments/long term investments	19	14,773	42,301
Long term receivables	20	358,774	424,583
Prepaid royalty	21	563,674	620,368
Deferred tax assets	34	27,690	18,583
		<hr/>	<hr/>
Total non-current assets		4,205,676	3,381,936
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories	22	4,599,339	4,565,500
Trade and bills receivables	23	6,036,973	5,671,774
Other receivables	25	1,270,343	1,322,259
Tax recoverable		39,089	11,266
Equity investments at fair value through profit or loss/short term investments	26	47,594	116,894
Pledged deposits	27	90,165	
Cash and bank balances	27	1,861,957	1,833,272
		<hr/>	<hr/>
Total current assets		13,945,460	13,520,965
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	28	6,867,142	6,649,213
Tax payable		145,985	110,838
Other payables and accruals	29	1,916,671	1,656,962
Provisions	30	197,402	239,877
Interest-bearing bank and other borrowings	31	3,481,045	570,119
Due to a shareholder/minority shareholder	32	536,364	430,748
Due to the ultimate holding company	24	717,863	246,965
Convertible notes	33		256,000
		<hr/>	<hr/>
Total current liabilities		13,862,472	10,160,722
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		82,988	3,360,243
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,288,664	6,742,179
		<hr/>	<hr/>

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET (continued)

31 December 2005

(With unaudited comparative figures as of 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		4,288,664	6,742,179
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	31		1,622,134
Due to a shareholder/minority shareholder	32		603,048
Deferred tax liabilities	34	24,057	33,989
Pensions and other post-employment benefits	35	165,615	130,050
Total non-current liabilities		189,672	2,389,221
Net assets		4,098,992	4,352,958
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	36	390,295	275,796
Reserves	37	3,600,221	2,544,734
Proposed final dividend	11		110,346
<b>Minority interests</b>		3,990,516	2,930,876
		108,476	1,422,082
Total equity		4,098,992	4,352,958

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
Total equity at 1 January		4,352,958	4,220,330
HKAS 39 Recognition of fair value of the Call Option	2.4(b)	) 109,876	
HKFRS 3 Derecognition of negative goodwill	2.4(b)	) 548,016	
Set-off of goodwill arising from the Share Exchange	37	(520,725 )	
Issue of shares, including share premium	36	1,636,984	160,986
Goodwill realised on disposal of a jointly-controlled entity	37		1,977
Acquisition of subsidiaries	37		1,318,760
Incorporation of a non-wholly-owned subsidiary	37		312
Disposal of a subsidiary	37		(5,033 )
Acquisition of minority interests	37	(1,159,255 )	
Equity-settled share option arrangements	37	28,661	7,729
Dividends paid to minority shareholders	37	(21,110 )	(4,070 )
Dividends paid to equity holders of the parent	37	(110,346 )	(1,735,445 )
		<u>4,865,059</u>	<u>3,965,546</u>
Total income and expenses recognised directly in equity:			
Exchange differences on translation of the financial statements of foreign entities	37	(62,800 )	99,468
Net profit/(loss) for the year	37	(703,267 )	287,944
		<u>(766,067 )</u>	<u>387,412</u>
Total income and expenses for the year			
		<u>(766,067 )</u>	<u>387,412</u>
Total equity at 31 December		<u>4,098,992</u>	<u>4,352,958</u>
Total income and expenses for the year:			
Attributable to:			
Equity holders of the parent		(632,826 )	375,378
Minority interests		(133,241 )	12,034
		<u>(766,067 )</u>	<u>387,412</u>

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		(584,098	) 417,455
Adjustments for:			
Finance costs	7	163,546	65,715
Share of profits and losses of jointly-controlled entities		(9,212	) (80,464
Amortisation of goodwill on acquisition of jointly-controlled entities			57,321
Depreciation	6	334,290	245,801
Goodwill amortisation	6		33,227
Negative goodwill recognised as income	6		(49,820
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments	6	(26,517	) (1,331
Bank interest income	6	(30,664	) (13,811
Fair value losses of equity investments at fair value through profit or loss/impairment of short term investments		95,083	29,026
Impairment of available-for-sale equity investments/long term investments	6	1,058	13,011
Loss on liquidation of an available-for-sale entity investment	6	4,280	
Amortisation of other intangible assets	6	4,791	3,155
Amortisation of prepaid land lease payments	6	5,908	2,633
Loss on disposal of a subsidiary	38(c)		2,075
Equity-settled share option expense	6	28,661	7,729
Operating profit/(loss) before working capital changes		(12,874	) 731,722
Increase in inventories		(59,544	) (400,517
Increase in trade and bills receivables		(552,872	) (3,119,817
Decrease/(increase) in other receivables		134,775	(608,932
Increase in trade and bills payables		371,847	1,596,439
Increase in other payables and accruals		184,508	783,165
Increase/(decrease) in provisions		(33,807	) 70,493
Increase in pensions and other post-employment benefits		49,580	7,300
Cash generated from/(used in) operations		81,613	(940,147
Interest paid		(163,546	) (65,715
Income taxes paid		(119,191	) (171,040
Net cash outflow from operating activities		(201,124	) (1,176,902

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2005

(With unaudited comparative figures for the year ended 31 December 2004)

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
Net cash outflow from operating activities		(201,124 )	(1,176,902 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment	13	(855,584 )	(612,282 )
Prepayment of land lease payments	14	(37,416 )	(4,859 )
Purchases of other intangible assets		(1,166 )	
Purchases of available-for-sale equity investments/ long term investments		(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		227,037	71,203
Proceeds from disposal of equity investments at fair value through profit or loss/short term investments		84,093	
Decrease/(increase) in pledged deposits		(90,165 )	5,199
Acquisition of minority interests	38(a)	(43,800 )	
Acquisition of subsidiaries	38(b)	(11,473 )	(159,477 )
Disposal of a subsidiary	38(c)		(99 )
Interest received	6	30,664	13,811
Dividends received from jointly-controlled entities		1,563	124,090
Net cash outflow from investing activities		(709,278 )	(651,158 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New bank and other loans		2,171,399	1,968,428
Repayment of bank loans		(1,021,560 )	(320,544 )
Repayment of convertible notes		(256,000 )	
Proceeds from issue of shares upon exercise of share options	36	804	69,986
Loan from the ultimate holding company		466,367	246,965
Contribution from minority shareholders			312
Loan from a shareholder/minority shareholder		367,334	1,033,796
Repayment of loan from a shareholder/minority shareholder		(790,634 )	
Dividends paid		(110,346 )	(383,860 )
Dividends paid to minority shareholders		(21,110 )	(943 )
Net cash inflow from financing activities		806,254	2,614,140
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		1,833,272	1,069,562
Effect of foreign exchange rate changes, net		(8,634 )	(22,370 )
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>1,720,490</b>	<b>1,833,272</b>

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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	27	1,861,957	1,833,272
Bank overdrafts	31	(141,467 )	
		<u>1,720,490</u>	<u>1,833,272</u>

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

(Including unaudited notes for the year ended 31 December 2004)

## 1. CORPORATE INFORMATION

TCL Multimedia Technology Holdings Limited (the Company) is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Uglan House, South Church Street, PO Box 309, George Town, Grand Cayman Islands, British West Indies.

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

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) (which 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 and all values are rounded to the nearest thousand (HK\$ 000) except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries acquired 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.

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

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

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2005

(Including unaudited notes for the year ended 31 December 2004)

## 2.2 IMPACT OF NEW AND REVISED HKFRSs

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 27, 31, 33, 37 and 38, HKFRS 5 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected certain presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement and other disclosures. In addition, in prior periods, the Group's share of tax attributable to jointly-controlled entities was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of jointly-controlled entities is presented net of the Group's share of tax attributable to jointly-controlled entities.



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2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 Leases

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

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

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

(b) HKAS 32 and HKAS 39 Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at cost with impairment losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$42,301,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at cost with impairment losses being recognised in the income statement.

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2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

(b) HKAS 32 and HKAS 39 Financial Instruments (continued)

(i) Equity securities (continued)

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$116,894,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

(ii) Call Option

Pursuant to the Common Stock Call Option Agreement dated 30 July 2004 (the Call Option Agreement), Thomson S.A. (Thomson) granted to the Company an option to purchase from Thomson 2.5 million shares of common stock of Thomson at an exercise price of Euro18.12 per share (the Call Option). The Call Option is exercisable during the period from 1 November 2004 to 31 October 2006.

In prior year, fair value of this Call Option was not recognised. Upon the adoption of HKAS 39, the fair value of this Call Option is recognised prospectively as an asset in the balance sheet with a corresponding adjustment to the opening balance of retained profits at 1 January 2005. The effects of the above changes are summarised in note 2.4 to the consolidated financial statements.

(iii) Discounted bills with recourse

In prior years, the Group accounted for bills discounted with recourse as a contingent liability. Upon the adoption of HKAS 39, bills discounted with recourse are no longer derecognised since the derecognition criteria for financial assets are not met. Accordingly, the related bank advances received as consideration for the bills discounted are recognised as a liability prospectively on or after 1 January 2005. The effects of the above changes are summarised in note 2.4 to the consolidated financial statements.

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2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

(b) HKAS 32 and HKAS 39 Financial Instruments (continued)

(iv) Convertible notes

In prior years, convertible notes were stated at amortised cost. Upon the adoption of HKAS 32, convertible notes are split into liability and equity components. The adoption of HKAS 32 has not resulted in any change in the classification of these convertible notes since the interest rate of these convertible notes was higher than the market rate for an equivalent non-convertible note at the time of issuance of these convertible notes and therefore, the convertible notes did not have any equity component.

(c) HKFRS 2 Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ( equity-settled transactions ), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 Summary of significant accounting policies below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group has certain employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has resulted in a prior year adjustment to account for the equity-settled transactions retrospectively.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the consolidated financial statements.

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2.2 IMPACT OF NEW AND REVISED HKFRSs (continued)

(d) HKFRS 3 Business Combinations and HKAS 36 Impairment of Assets

In prior years, 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.

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. Negative goodwill was carried in the consolidated balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the consolidated 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.

The effects of the above changes are summarised in note 2.4 to the consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

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### 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economics(effective for annual periods beginning on or after 1 March 2006)

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 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

The HKAS 39 Amendments shall be applied for annual periods beginning on or after 1 January 2006. In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

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

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## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

Effect of new policies (Increase/(decrease))	Effect of adopting					Total
	HKAS 17#	HKASs 32# and 39*	HKAS 39*	HKFRS 2#	HKFRS 3* Discontinuation of amortisation of goodwill/ derecognition of negative goodwill	
	Prepaid land lease payments	Change in classification of equity investments	Call Option and bills discounted with recourse	Equity-settled share option arrangements		
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
<b>At 1 January 2005</b>						
<b>Assets</b>						
Property, plant and equipment	( 58,721 )					( 58,721 )
Prepaid land lease payments	54,914					54,914
Negative goodwill					548,016	548,016
Available-for-sale equity investments		42,301				42,301
Long term investments		( 42,301 )				( 42,301 )
Trade and bills receivables			46,396			46,396
Other receivables	3,807					3,807
Equity investments at fair value through profit or loss		116,894	109,876			226,770
Short term investments		(116,894 )				(116,894 )
						<u>704,288</u>
<b>Liabilities/equity</b>						
Interest-bearing bank borrowings			46,396			46,396
Share option reserve				14,814		14,814
Retained profits			109,876	( 14,814 )	548,016	643,078
						<u>704,288</u>
<b>At 31 December 2005</b>						
<b>Assets</b>						
Property, plant and equipment	( 68,063 )					( 68,063 )
Prepaid land lease payments	62,623					62,623
Goodwill					33,136	33,136

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Negative goodwill			21,337	21,337
Available-for-sale equity investments	14,773			14,773
Long term investments	( 14,773 )			( 14,773 )
Trade and bills receivables		20,082		20,082
Other receivables	5,440			5,440
Equity investments at fair value through profit or loss	9,941	37,653		47,594
Short term investments	(9,941 )			(9,941 )
				<u>112,208</u>
<b>Liabilities/equity</b>				
Interest-bearing bank borrowings		20,082		20,082
Share option reserve			43,475	43,475
Retained profits		37,653	( 43,475 )	54,473
				<u>112,208</u>

\* Adjustment taken effect prospectively from 1 January 2005

# Adjustments/presentation taken effect retrospectively

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(Including unaudited notes for the year ended 31 December 2004)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)  
 (b) Effect on the balances of equity at 1 January 2004 and at 1 January 2005

Effect of new policies (Increase/(decrease))	Effect of adopting			Total
	HKAS 39 Call Option	HKFRS 2 Equity-settled share option arrangements	HKFRS 3 Negative goodwill	
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
<b>1 January 2004 (unaudited)</b>				
Share option reserve (unaudited)		7,085		7,085
Retained profits (unaudited)		(7,085 )		(7,085 )
<b>1 January 2005</b>				
Share option reserve		14,814		14,814
Retained profits	109,876	(14,814 )	548,016	643,078
				657,892

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(Including unaudited notes for the year ended 31 December 2004)

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

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

Effect of new policies	Effect of adopting				Total
	HKAS 1 Share of post-tax profits and losses of jointly-controlled entities	HKAS 39 Call Option	HKFRS 2 Equity-settled share option arrangements	HKFRS 3 Discontinuation of amortisation of goodwill and negative goodwill	
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
<u>Year ended 31 December 2005</u>					
Decrease in other revenue and gains				(5,954)	(5,954)
Increase in administrative expenses			(28,661)		(28,661)
Decrease in other operating expenses				33,136	33,136
Increase in fair value losses of equity investments at fair value through profit or loss		(72,223)			(72,223)
Decrease in share of profits and losses of jointly-controlled entities	(1,130)				(1,130)
Decrease in tax	1,130				1,130
<b>Total decrease/(increase) in loss</b>		<b>(72,223)</b>	<b>(28,661)</b>	<b>27,182</b>	<b>(73,702)</b>
<b>Decrease/(increase) in basic loss per share</b>		<b>HK(2.25 cents)</b>	<b>HK(0.89 cent)</b>	<b>HK0.85 cent</b>	<b>HK(2.29 cents)</b>
<b>Increase in diluted loss per share</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<u>Year ended 31 December 2004</u>					
Increase in administrative expenses (unaudited)			(7,729)		(7,729)

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Decrease in share of profits and losses of jointly-controlled entities (unaudited)	( 14,052 )			( 14,052 )
Decrease in tax (unaudited)	14,052			14,052
<hr/>				
Total decrease in profit (unaudited)			( 7,729 )	( 7,729 )
<hr/>				
Decrease in basic earnings per share (unaudited)			HK(0.28 cent )	HK(0.28 cent )
<hr/>				
Decrease in diluted earnings per share (unaudited)			HK(0.23 cent )	HK(0.23 cent )
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## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

### Joint ventures

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

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

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

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

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

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2.5. 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 acquiree's 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 cash-generating units (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 the consolidated capital reserve*

Prior to the adoption of Statement of Standard Accounting Practice (SSAP) 30 Business Combinations in 2001, goodwill arising on acquisition was eliminated against the consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in profit or loss 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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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)

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 consolidated income statement.

The excess for the associates and jointly-controlled entities is included in the determination of the Group's share of the associates' and jointly-controlled entities' profit or loss in the period in which the investments are acquired.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), 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, 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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(Including unaudited notes for the year ended 31 December 2004)

## 2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c); or
- (e) 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 (c) or (d).

Property, plant and equipment and depreciation

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

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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.

Non-current assets and disposal groups held for sale

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

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

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 lease 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.

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 licenses 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.

Investments and other financial assets

**Applicable to the year ended 31 December 2004 (unaudited):**

The Group classified its equity investments, other than subsidiaries and jointly-controlled entities, as long term investments and short term investments.

*Long term investments*

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses.

*Short term investments*



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Short term investments are investments in equity securities and mutual funds held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

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(Including unaudited notes for the year ended 31 December 2004)

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

**Applicable to the year ended 31 December 2005:**

Financial assets in the scope of HKAS 39 are classified as either 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 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, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category financial assets 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 are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading 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 carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets in unlisted equity securities that 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 with the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

*Fair value*

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

Impairment of financial assets (applicable to the year ended 31 December 2005)

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 profit or loss.

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.

*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.

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)  
Derecognition of financial assets (applicable to the year ended 31 December 2005)

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 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 that 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.

Interest-bearing loans and borrowings

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

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

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

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible notes

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

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

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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 profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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 net profit or loss for the year.

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

Inventories

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

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Foreign currencies

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

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in 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.

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(Including unaudited notes for the year ended 31 December 2004)

2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

*Share-based payment transactions*

The Company operates share option schemes 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. In valuing equity-settled transactions, no account is taken of any performance conditions, other 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 the beginning and end of that period.

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

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

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

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 on 1 January 2005 and to those granted on or after 1 January 2005.

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2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

*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 all 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 expense 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.

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 estimate future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) from the rendering of services, when the services are rendered;
- (d) rental income, on a time proportion basis over the lease terms; and

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 2.5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

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

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### Judgements

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 bank and the factoring company. Accordingly, the relevant trade receivables are not derecognised.

- (ii) *Trademarks with indefinite useful lives*

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

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

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill/intangible asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill and intangible assets with indefinite useful lives at 31 December 2005 was HK\$206,639,000 (2004(Unaudited): HK\$206,639,000) and HK\$56,598,000 (2004(Unaudited): Nil), respectively. Further details are given in notes 15 and 16 to the consolidated financial statements.

(ii) *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 the carrying value of the receivables and impairment losses/reversal of impairment losses in the period in which such estimate has been changed.

(iii) *Warranty provisions*

As further explained in note 30, 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 benefit retirement obligations, fair value of share options granted and financial instruments are discussed in notes 35, 36 and 44, respectively.

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TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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#### 4. SEGMENT INFORMATION

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

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

- (a) the television segment manufactures colour television sets and trades related components;
- (b) the computer segment manufactures personal computers and peripheral products;
- (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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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Including unaudited notes for the year ended 31 December 2004)

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

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

	Television		Computer		Audio-visual		Others		Eliminations		Consolidated	
	2005 HK\$ 000	2004 HK\$ 000	2005 HK\$ 000	2004 HK\$ 000	2005 HK\$ 000	2004 HK\$ 000	2005 HK\$ 000	2004 HK\$ 000	2005 HK\$ 000	2004 HK\$ 000	2005 HK\$ 000	2004 HK\$ 000
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited) (Restated)	
Segment revenue:												
Sales to external customers	29,937,575	21,794,739	2,092,796	1,976,507	1,986,323	1,304,379	539,636	524,215			34,556,330	25,599,840
Intersegment sales	1,085,755	680,059	5,037	3,834	369,878	945,818	6,952	3,072	(1,467,622)	(1,632,783)		
Total	31,023,330	22,474,798	2,097,833	1,980,341	2,356,201	2,250,197	546,588	527,287	(1,467,622)	(1,632,783)	34,556,330	25,599,840
Segment results	(236,647)	553,012	22,637	36,560	(13,242)	30,948	(18,617)	(33,061)			(245,869)	587,459
Interest income											30,664	13,811
Corporate expenses											(119,476)	(112,217)
Finance costs											(163,546)	(65,715)
Share of profits and losses of jointly-controlled entities	4,494	5,565					4,718	74,899			9,212	80,464
Amortisation of goodwill on acquisition of jointly-controlled entities								(57,321)				(57,321)
Fair value losses of equity investments at fair value through profit or loss/impairment of short term investments							(95,083)	(29,026)			(95,083)	(29,026)
Profit/(loss) before tax											(584,098)	417,455
Tax											(119,169)	(129,511)
Profit/(loss) for the year											(703,267)	287,944



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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

	Television		Computer		Audio-visual		Others		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Assets and liabilities												
Segment assets	15,510,744	14,580,264	999,710	890,047	260,924	221,882	1,603,075	1,201,882	(787,665)	(876,951)	17,586,788	16,017,120
Interests in jointly-controlled entities	106,264	99,616					50,824	46,759			157,088	146,375
Unallocated assets											265,793	739,402
Bank overdrafts included in segment assets	141,467										141,467	
Total assets											18,151,136	16,902,900
Segment liabilities	11,796,928	13,165,415	461,697	474,269	197,943	211,971	1,060,297	712,472	(3,290,739)	(4,644,072)	10,226,126	9,920,055
Unallocated liabilities											3,684,551	2,629,888
Bank overdrafts included in segment assets	141,467										141,467	
Total liabilities											14,052,144	12,549,943
Other segment information:												
Depreciation and amortisation	316,688	242,028	5,806	27,837	14,064	11,411	8,431	60,861			344,989	342,137
Impairment and fair value losses recognised in the income statement			1,058				95,083	42,037			96,141	42,037
Capital expenditure	801,359	449,287	15,594	5,972	26,397	40,613	12,234	116,410			855,584	612,282
Negative goodwill recognised as income		49,820										49,820

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## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	PRC		Europe		North America		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited) (Restated)
Segment revenue:										
Sales to external customers	13,222,387	12,955,261	7,868,705	4,743,814	6,792,573	3,554,130	6,672,665	4,346,635	34,556,330	25,599,840
Other segment information:										
Segment assets	6,968,457	4,445,771	4,581,140	4,641,581	3,084,515	3,017,366	2,952,676	3,912,406	17,586,788	16,017,124
Capital expenditure	597,261	446,995	89,472	43,700	113,988	67,161	54,863	54,426	855,584	612,282

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 5. TURNOVER

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

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<u>2005</u>	<u>2004</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u>
		(Unaudited)
		(Restated)
Cost of inventories sold	28,910,462	21,160,532
Depreciation (note 13)	334,290	245,801
Research and development costs	521,041	281,311
Less: Government grants released*	(14,639 )	(16,908 )
	<u>506,402</u>	<u>264,403</u>
Net research and development costs		
Amortisation of other intangible assets (note 16)**	4,791	3,155
Amortisation of goodwill (note 15)***		33,227
Negative goodwill recognised as income (note 15)****		(49,820 )
Minimum lease payments under operating leases in respect of land and buildings	63,701	72,081
Amortisation of prepaid land lease payments (note 14)	5,908	2,633
Auditors' remuneration	21,802	9,423
Employee benefits expense (including directors' remuneration (note 8):		
Wages and salaries	1,865,072	963,859
Defined contribution expense	84,148	63,906
Defined benefit expense (note 35)	23,879	7,342
Equity-settled share option expense	28,661	7,729
	<u>2,001,760</u>	<u>1,042,836</u>
Gain on disposal of items of property, plant and equipment, and prepaid land lease payments	(26,517 )	(1,331 )
Loss on disposal of a subsidiary		2,075
Loss on liquidation of an available-for-sale equity investment (note 19)	4,280	
Impairment of available-for-sale equity investments/ long term investments	1,058	13,011
Impairment of trade receivables***	120,196	18,890
Foreign exchange differences, net	72,693	(19,569 )
Gross rental income	(10,712 )	
Bank interest income	(30,664 )	(13,811 )
Restructuring costs, net of reimbursement (note 30)	(194 )	16,029
Provision for warranties (note 30)	248,112	191,853
Write-down/(reversal of write-down) of inventories to net realisable value	(23,435 )	51,516

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

- \* 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 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.

## 7. FINANCE COSTS

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Interest on:		
Bank loans and overdrafts	108,661	28,723
Other loan wholly repayable within five years	1,940	
Convertible notes	6,400	7,541
Loan from a shareholder/minority shareholder	24,783	9,083
Loan from the ultimate holding company	21,762	20,368
	<u>163,546</u>	<u>65,715</u>

## 8. DIRECTORS REMUNERATION

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

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
		<b>(Restated)</b>
Fees	700	300
Other emoluments:		
Salaries, allowances and benefits in kind	3,448	3,072
Discretionary performance related bonuses	900	1,078
Employee share option benefits	3,254	151
Pension scheme contributions	94	29
	<u>7,696</u>	<u>4,330</u>

8,396

4,630

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 8. DIRECTORS REMUNERATION (continued)

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 36 to the consolidated financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors remuneration disclosures.

## (a) Independent non-executive directors

	2005			2004		
	Fees	Employee share option		Fees	Employee share option	
		benefits	Total		benefits	Total
HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	
Mr. Tang Guliang	150	51	201	30	30	
Mr. Wang Bing	150	51	201	30	30	
Mr. Hon Fong Ming, Perry	150	51	201	120	120	
	450	153	603	180	180	

There was no other emoluments payable to the independent non-executive directors during the year (2004(Unaudited): Nil).

## (b) Executive directors and a non-executive director

	Fees	Salaries,	Discretionary	Employee share option	Pension scheme	Total
		allowances	performance			
		and benefits	related			
HK\$ 000	HK\$ 000	in kind	bonuses	benefits	contributions	remuneration
HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000	HK\$ 000
<b>2005</b>						
<b>Executive directors:</b>						
Mr. Li Dong Sheng		650	200	853		1,703
Ms. Lu Zhong Li		390		427		817
Mr. Hu Qiu Sheng		390	231	427		1,048
Mr. Zhao Zhong Yao		435	274	554	19	1,282
Mr. Yan Yong, Vincent		1,073	195	597	56	1,921
Mr. Suen Hay Wai, Felipe		510		192	19	721
Mr. Alastair Kenneth Ruskin Campbell	50					50
Mr. Didier Trutt	50					50

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	<u>100</u>	<u>3,448</u>	<u>900</u>	<u>3,050</u>	<u>94</u>	<u>7,592</u>
<b>Non-executive director:</b>						
Mr. Albert Thomas da Rosa, Junior	150			51		201
	<u>250</u>	<u>3,448</u>	<u>900</u>	<u>3,101</u>	<u>94</u>	<u>7,793</u>

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8. DIRECTORS REMUNERATION (continued)  
 (b) Executive directors and a non-executive director: (continued)

	Salaries, allowances and benefits in kind	Discretionary performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
Fees	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)
<b>2004</b>					
<b>Executive directors:</b>					
Mr. Li Dong Sheng	650	180			830
Mr. Yuan Xin Cheng	120				120
Ms. Lu Zhong Li	390				390
Mr. Hu Qiu Sheng	390	180			570
Mr. Zhao Zhong Yao	112	142		5	259
Mr. Yan Yong, Vincent	305	414	24	12	755
Mr. Suen Hay Wai, Felipe	1,105	162	127	12	1,406
	3,072	1,078	151	29	4,330
<b>Non-executive director:</b>					
Mr. Albert Thomas da Rosa, Junior	120				120
	120	3,072	1,078	29	4,450

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any (2004(Unaudited): one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2004(Unaudited): four) non-director, highest paid employees for the year are as follows:

	2005	2004
	HK\$ 000	HK\$ 000 (Unaudited) (Restated)
Salaries, allowances and benefits in kind	10,302	6,684
Discretionary performance related bonuses	4,230	1,164
Employee share option benefits		127
Pension scheme contributions	1,501	36



16,033

8,011

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## 9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	<b>Number of employees</b>	
	<b>2005</b>	<b>2004</b>
		<b>(Unaudited)</b>
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	
HK\$3,000,001 to HK\$3,500,000	4	
	<b>5</b>	<b>4</b>

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (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 in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
		<b>(Restated)</b>
Current - Hong Kong		
Charge for the year	11,403	29,751
Current - Elsewhere		
Charge for the year	131,279	99,858
Overprovision in prior years	( 3,466 )	
Deferred (note 34)	(20,047 )	(98 )
Total tax charge for the year	<b>119,169</b>	<b>129,511</b>

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 10. TAX (continued)

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

	<u>2005</u>		<u>2004</u>
	<b>HK\$ 000</b>		<b>HK\$ 000</b>
			<b>(Unaudited)</b>
			<b>(Restated)</b>
Profit/(loss) before tax	(584,098	)	417,455
Tax at the statutory/applicable tax rates of different countries/locations	(225,978	)	81,469
Lower tax rate for specific provinces or local authority	(145,571	)	(82,724
Effect on opening deferred tax of increase in rates			(5,928
Adjustments in respect of current tax of previous periods	(3,466	)	
Profits and losses attributable to jointly-controlled entities	(4,169	)	(40,605
Income not subject to tax	(65,371	)	(49,655
Expenses not deductible for tax	168,838		128,543
Tax losses utilised from previous periods			(9,078
Tax losses not recognised	385,865		109,530
Others	9,021		(2,041
Tax charge at the Group's effective rate	<u>119,169</u>		<u>129,511</u>

The share of tax attributable to jointly-controlled entities amounting to HK\$1,130,000 (2004(Unaudited): HK\$14,052,000) is included in Share of profits and losses of jointly-controlled entities 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%.

## 11. DIVIDENDS

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Interim - Nil (2004(Unaudited): HK4 cents per share)		110,316
Distribution in specie		1,351,585
Proposed final - Nil (2004(Unaudited): HK4 cents per share)		110,346

1,572,247

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

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12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

	<u>2005</u>	<u>2004</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u>
		(Unaudited)
		(Restated)
<u>Earnings/(loss)</u>		
Net profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	(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 (note 36)	(100,372 )	(20,597 )
	<u>(692,865 )</u>	<u>295,929</u>
Earnings/(loss) for the purpose of diluted earnings/(loss) per share		

	<u>Number of shares</u>	
	<u>2005</u>	<u>2004</u>
		(Unaudited)
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	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
Assumed deemed conversion of all convertible notes	105,886,421	112,381,287
Assumed deemed exercise of the Exchange Option (note 36) outstanding during the year	692,778,748	480,378,535
	<u>4,014,917,069</u>	<u>3,343,601,494</u>
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation		

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed, as the share options, convertible notes and Exchange Option outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

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## 13. PROPERTY, PLANT AND EQUIPMENT

	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
<b>31 December 2005</b>							
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	<u>1,131,558</u>	<u>20,631</u>	<u>836,738</u>	<u>182,914</u>	<u>38,038</u>	<u>179,804</u>	<u>2,389,683</u>
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	<u>1,436,657</u>	<u>73,231</u>	<u>822,859</u>	<u>218,690</u>	<u>31,597</u>	<u>139,388</u>	<u>2,722,422</u>
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	<u>1,436,657</u>	<u>73,231</u>	<u>822,859</u>	<u>218,690</u>	<u>31,597</u>	<u>139,388</u>	<u>2,722,422</u>

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## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Leasehold improve ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited)	HK\$ 000 (Unaudited) (Restated)
<b>31 December 2004</b>							
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	<u>283,804</u>	<u>24,327</u>	<u>251,901</u>	<u>80,837</u>	<u>19,871</u>	<u>173,342</u>	<u>834,082</u>
At 1 January 2004, net of accumulated depreciation							
Additions	20,810	29,255	186,606	69,465	24,329	281,817	612,282
Acquisition of subsidiaries (note 38(b))	564,497	2,560	464,001	82,387	6,804	82,689	1,202,938
Disposal of a subsidiary (note 38(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	<u>1,131,558</u>	<u>20,631</u>	<u>836,738</u>	<u>182,914</u>	<u>38,038</u>	<u>179,804</u>	<u>2,389,683</u>
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	<u>1,131,558</u>	<u>20,631</u>	<u>836,738</u>	<u>182,914</u>	<u>38,038</u>	<u>179,804</u>	<u>2,389,683</u>

An analysis of the Group's land and building is as follows:

<u>2005</u>	<u>2004</u>
<b>HK\$ 000</b>	

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	<b>HK\$ '000</b>	
	<b>(Unaudited)</b>	
	<b>(Restated)</b>	
Elsewhere:		
Freehold	500,478	486,891
Short term leases	94,495	68,215
Medium term leases	988,198	705,995
	<u>1,583,171</u>	<u>1,261,101</u>

At 31 December 2005, certain of the Group's buildings with a net book value of approximately HK\$90,090,000 (2004(Unaudited): Nil) were pledged to secure general banking facilities granted to a subsidiary of the Company.

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## 14. PREPAID LAND LEASE PAYMENTS

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
		<b>(Restated)</b>
Carrying amount at 1 January:		
As at previously reported		
Effect of adopting HKAS 17 (note 2.2(a))	58,721	34,837
	<u>58,721</u>	<u>34,837</u>
As restated	58,721	34,837
Additions	37,416	4,859
Acquisition of subsidiaries (note 38(b))		29,453
Disposals	(22,724 )	(7,795 )
Amortised during the year	(5,908 )	(2,633 )
Exchange realignment	558	
	<u>68,063</u>	<u>58,721</u>
Carrying amount at 31 December	68,063	58,721
Current portion included in other receivables	(5,440 )	(3,807 )
	<u>62,623</u>	<u>54,914</u>
Non-current portion	62,623	54,914

An analysis of the Group's leasehold land is as follows:

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
		<b>(Restated)</b>
PRC:		
Short term leases	54,431	37,736
Medium term leases	13,632	20,985
	<u>68,063</u>	<u>58,721</u>

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## 15. GOODWILL/NEGATIVE GOODWILL

	<u>Goodwill</u>	<u>Negative goodwill</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u>
<b>31 December 2005</b>		
At 1 January 2005:		
Cost as previously reported	331,357	(598,490 )
Effect of adopting HKFRS 3 (note 2.2(d))	(124,718 )	598,490
	<u>206,639</u>	<u>          </u>
Cost as restated		
Accumulated amortisation as previously reported	124,718	(50,474 )
Effect of adopting HKFRS 3 (note 2.2(d))	(124,718 )	50,474
	<u>          </u>	<u>          </u>
Accumulated amortisation		
Net carrying amount	<u>206,639</u>	<u>          </u>
Cost and carrying amount at 31 December 2005	<u>206,639</u>	<u>          </u>

	<u>Goodwill</u>	<u>Negative goodwill</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>31 December 2004</b>		
At 1 January 2004:		
Cost	336,670	(654 )
Accumulated amortisation	(92,131 )	654
	<u>244,539</u>	<u>          </u>
Net carrying amount		
Cost at 1 January 2004, net of accumulated amortisation	244,539	
Acquisition of subsidiaries (note 38(b))		(597,836 )
Disposal of a subsidiary (note 38(c))	(4,673 )	
Recognised as income/(amortisation provided) during the year	(33,227 )	49,820
	<u>206,639</u>	<u>(548,016 )</u>
At 31 December 2004		
At 31 December 2004:		

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Cost	331,357	(598,490 )
Accumulated amortisation	(124,718 )	50,474
	<u>          </u>	<u>          </u>
Net carrying amount	206,639	(548,016 )
	<u>          </u>	<u>          </u>

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## 15. GOODWILL/NEGATIVE GOODWILL (continued)

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimated useful life of 10 years.

As further explained in note 2.2(d) 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 2005, 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 (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.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	<b>PRC television products</b>	<b>PRC computer products</b>	<b>Total</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>	<b>HK\$ 000</b>
Carrying amount of goodwill 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 8% and cash flows beyond the five-year period are extrapolated using a steady growth rate.

*PRC computer products cash-generating unit*

The recoverable amount of the PRC computer 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 12% 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.

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## 16. OTHER INTANGIBLE ASSETS

	<b>Patents and licences</b>	<b>Trademarks</b>	<b>Total</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>	<b>HK\$ 000</b>
<b>31 December 2005:</b>			
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 )
	<u>14,060</u>	<u>77,933</u>	<u>91,993</u>
At 31 December 2005			

At 31 December 2005:			
Cost	15,695	87,667	103,362
Accumulated amortisation	(1,635 )	(9,734 )	(11,369 )
Net carrying amount	<u>14,060</u>	<u>77,933</u>	<u>91,993</u>

	<b>Patents and licences</b>	<b>Trademarks</b>	<b>Total</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>	<b>HK\$ 000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>31 December 2004:</b>			
At 1 January 2004:			
Cost		31,707	31,707
Accumulated amortisation		(3,963 )	(3,963 )
Net carrying amount		<u>27,744</u>	<u>27,744</u>
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		<u>26,506</u>	<u>26,506</u>

At 31 December 2004 and 1 January 2005:			
Cost		34,201	34,201
Accumulated amortisation		(7,695 )	(7,695 )

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Net carrying amount		26,506	26,506
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Included in the balance of trademarks are certain trademarks with an aggregate carrying value of HK\$56,598,000 (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 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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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 17. 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
			2005	2004	
					(Unaudited)
Guangzhou Digital Rowa Technology Co., Ltd.**	PRC	RMB120,000,000	70	70	Manufacture of audio-visual products
Inner Mongolia TCL Electrical Appliance Company Limited*	PRC	RMB88,130,825	100	67	Manufacture of audio-visual products
Manufacturas Avanzadas, S.A. de. C.V.	Mexico	US\$25,452,000	100	67	Manufacture of audio-visual products
Renova Electronics Private Limited	India	INR845,164,897	100	67	Trading of audio-visual products and components
TTE Corporation @	British Virgin Islands/ Hong Kong	US\$10,000	100	67	Investment holding
Schneider Electronics GmbH	Germany	EUR2,000,000	100	67	Manufacture and sale of audio-visual products
Shenzhen TCL New Technology Company Limited**	PRC	RMB10,608,600	100	67	Manufacture and sale of audio-visual products
TTE Europe SAS	France	EUR159,394,580	100	67	Trading of audio-visual products and components
TCL (Vietnam) Corporation Limited	Vietnam	VND 37,135,000	100	67	Manufacture and sale of audio-visual products
TCL Computer Technology Co., Ltd.*	PRC	RMB100,000,000	100	100	Manufacture and sale of personal computers and peripheral products

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## 17. 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
			2005	2004	
					(Unaudited)
TCL Digital Science and Technology (Wuxi) Company Limited**	PRC	RMB122,570,000	70	47	Manufacture of audio-visual products
TCL Electrical Appliance Sales Co., Ltd.***	PRC	RMB30,000,000	51	51	Operation of a distribution network in the PRC
TCL Electronics (HK) Limited	Hong Kong	HK\$30,000,000	100	67	Trading of audio-visual products and components
TCL Electronics (Thailand) Co. Limited	Thailand	THB100,000,000	100	67	Trading of audio-visual products and components
TCL Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US\$25,000	100	67	Investment holding
TCL India Holdings Pvt. Limited	India	INR100,000	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	Investment holding
TCL King Electrical Appliances (Chengdu) Company Limited*	PRC	HK\$95,000,000	100	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Huhehaote) Company Limited*	PRC	RMB21,400,000	100	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Huizhou) Company Limited*	PRC	RMB274,400,000	100	67	Manufacture and sale of audio-visual products and trading of components
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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 17. 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
			2005	2004	
				(Unaudited)	
TCL King Electrical Appliances (Nanchang) Company Limited*	PRC	RMB21,400,000	100	67	Manufacture of audio-visual products
TCL King Electrical Appliances (Wuxi) Company Limited**	PRC	RMB10,608,000	70	47	Manufacture of audio-visual products
TCL King Electronics (Shenzhen) Company Limited*	PRC	RMB107,000,000	100	67	Manufacture of audio-visual products
TCL OEM Sales Limited	Hong Kong	HK\$2	100	67	Trading of audio-visual products and components
TCL Overseas Consumer Electronics Limited	Hong Kong	HK\$100	100	67	Trading of audio-visual products and components
TCL Overseas Electronics (Huizhou) Limited*	PRC	RMB106,819,156	100	67	Manufacture of audio-visual products
TCL Overseas Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	67	Investment holding
TCL Overseas Marketing Limited	British Virgin Islands/ Hong Kong	US\$1	100	67	Trading of audio-visual products and components
TCL Retail (HK) Limited	Hong Kong	HK\$10,000	100	67	Trading of audio-visual products
TCL Technoly Electronics (Huizhou) Co., Ltd.*	PRC	RMB45,730,500	100	100	Manufacture and sale of audio-visual products

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## 17. 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
			2005	2004	
				(Unaudited)	
TCL- Thomson Electronics (Thailand) Co., Ltd.	Thailand	THB220,000	100	67	Trading of audio-visual products and components
TCL- Thomson Electronics Polska S.P. Zo.o	Poland	PLN30,000	100	67	Manufacture of audio-visual products
Thomson Televisions De Mexico, S.A de C.V.	Mexico	US\$16,000	100	67	Manufacture of audio-visual products
TTE Germany GmbH	Germany	EUR25,000	100	67	Provision of research and development services
TTE Technology Canada Limited	Canada	CAD816,000	100	67	Trading of audio-visual products and components
TTE Technology Inc.	USA	US\$37,594,000	100	67	Trading of audio-visual products and components
TCL Russia LLC	Russia	RUB3,000,000	100	67	Trading of audio-visual products and components
TCL Technology LLC	Russia	RUB10,000	100		Trading of audio-visual products and components
TCL Go Video	Cayman Islands/USA	US\$1	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

\*\*\* Registered as limited liability company under the PRC law

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 17. PRINCIPAL SUBSIDIARIES (continued)

On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004 (the Exchange Option Agreement), Thomson exercised the exchange option (the Exchange Option) to exchange its 33% equity interest in TTE for shares in the Company (the Share Exchange). As a result, the Company's equity interests in TTE and its subsidiaries increased. Further details of the Exchange Option and the Share Exchange are included in notes 36 and 43 to the consolidated financial statements.

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.

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	<u>2005</u>	<u>2004</u>
	HK\$ '000	HK\$ '000 (Unaudited)
Share of net assets	157,088	146,375

The Group's trade receivables and payables due from/to the jointly-controlled entities are disclosed in notes 23 and 28 to the consolidated financial statements, respectively.

Particulars of the jointly-controlled entities, all of which are indirectly held by the Company as of 31 December 2005, are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Henan TCL-Melody Electronics Co., Ltd.	Corporate	PRC	52	57	52	Manufacture and sale of audio-visual products
TCL Sun, Inc.	Corporate	Philippines	49	49	49	Trading of audio-visual products
	Corporate	PRC	50	45	50	Provision of remote education services

\* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	178,406	147,064
Non-current assets	46,414	49,413
Current liabilities	( 65,897 )	( 48,000 )
Non-current liabilities	( 1,835 )	( 2,102 )
Net assets	<u>157,088</u>	<u>146,375</u>
Share of the jointly-controlled entities' results:		
Turnover	773,229	2,853,414
Other revenue	2,204	58,917
Total revenue	775,433	2,912,331
Total expenses	( 765,091 )	( 2,817,815 )
Tax	( 1,130 )	( 14,052 )
Profit after tax	<u>9,212</u>	<u>80,464</u>

## 19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Unlisted equity investments, at cost	15,831	55,312
Provision for impairment	( 1,058 )	( 13,011 )
	<u>14,773</u>	<u>42,301</u>

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.

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## 19. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS (continued)

During the year, one of the Group's unlisted equity investments in the PRC went into liquidation and the Group received assets with an aggregate fair value of HK\$30,524,000 as distribution of the remaining assets of that investment. The carrying amount of the liquidated unlisted equity investment at the time of liquidation was HK\$34,804,000 and a loss of HK\$4,280,000 was recognised in the income statement.

## 20. LONG TERM RECEIVABLES

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
Angers Factory Assets	(a)	147,154	168,376
Trademark fee reinvestment	(b)	81,151	115,438
Restructuring costs reimbursement receivable from Thomson	30	54,338	
Trade receivables	23	76,131	140,769
		358,774	424,583

## Notes:

(a) Pursuant to the Agreement relating to Thomson Television Angers dated 30 July 2004, 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 Euro 16 million for a nominal consideration of Euro 1 within five years from 30 July 2004. Should the aggregate fair market value of the Angers Factory Assets to be transferred to TTE by Thomson is less than Euro 16 million, Thomson is required to transfer other assets and/or cash to make up the shortfall.

(b)

	Note	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited)
Total at 31 December		106,786	115,438
Less: Portion classified as current assets	25	( 25,635 )	
Non-current portion		81,151	115,438

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 20. LONG TERM RECEIVABLES (continued)

Notes: (continued)

Pursuant to the Thomson Trademark License Agreement dated 30 July 2004, Thomson is required to reinvest the trademark fee receivable from TTE in respect of sales of certain Thomson-owned brands televisions for the period from the second anniversary until the fifth anniversary (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 costs for such brands for the benefits of TTE. The entire balance represents TTE's prepayment of trademark fee and any actual trademark fee payable to Thomson by TTE during the Reinvestment Period will be deducted from this balance.

## 21. PREPAID ROYALTY

	<b>2005</b>	<b>2004</b>
	<b>HK\$ '000</b>	<b>HK\$ '000</b>
		<b>(Unaudited)</b>
Total at 31 December	603,425	676,295
Less: Portion classified as current assets (note 25)	(39,751)	(55,927)
Non-current portion	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 Euro 70 million 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 this paid-up royalty account. After the fourth anniversary of the Patent Royalty Agreement, TTE may elect to apply the remaining balance in the paid-up royalty account to pay any other amounts that may be due to TLSA and its affiliates under certain other operation agreements associated with the Combination Agreement.

## 22. INVENTORIES

	<b>2005</b>	<b>2004</b>
	<b>HK\$ '000</b>	<b>HK\$ '000</b>
		<b>(Unaudited)</b>
Raw materials	1,495,297	1,441,926
Work in progress	319,628	365,715
Finished goods	2,784,414	2,757,859
	4,599,339	4,565,500

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## 23. TRADE AND BILLS RECEIVABLES

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		<b>HK\$ 000</b>	<b>HK\$ 000</b> <b>(Unaudited)</b> <b>(Restated)</b>
Due from third parties:			
Trade receivables		5,191,517	4,842,183
Bills receivable		785,466	907,848
		<u>5,976,983</u>	<u>5,750,031</u>
Due from related parties:			
The ultimate holding company	24	30,004	
Companies controlled by TCL Corporation	24	34,707	19,633
Thomson and companies controlled by Thomson (collectively the Thomson Group )	24	41,765	7,832
Jointly-controlled entities	24	29,645	35,047
		<u>136,121</u>	<u>62,512</u>
Total		6,113,104	5,812,543
Less: Portion classified as non-current assets	20	(76,131 )	(140,769 )
Current portion		<u>6,036,973</u>	<u>5,671,774</u>

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 also made on open-account basis with credit terms of no more than 180 days. Certain customers are allowed to settle the contract sum by instalments semi-annually. During the year, 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 that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

<u>2005</u>	<u>2004</u>
<b>HK\$ 000</b>	

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	<b>HK\$ 000</b>	
	<b>(Unaudited)</b>	
Current to 90 days	5,593,526	5,191,272
91 to 180 days	124,902	552,555
181 to 365 days	247,726	65,602
Over 365 days	146,950	3,114
	<hr/>	<hr/>
	6,113,104	5,812,543
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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 23. TRADE AND BILLS RECEIVABLES (continued)

At 31 December 2005, the Group's trade receivables of approximately HK\$1,110,972,000 (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 had discounted trade receivables of approximately HK\$20,082,000 to a bank with recourse (the Discounted Bills). The Discounted Bills were included in the above balance of trade receivables because the derecognition criteria for financial assets were not met.

Accordingly, the advances from the relevant banks and the factoring company of approximately HK\$828,433,000 and HK\$302,621,000, respectively, received by the Group as consideration for the Factored Receivables and the Discounted Bills at the balance sheet date were recognised as liabilities and included in Interest-bearing bank and other borrowings (note 31).

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

The amounts are unsecured and are repayable within one year. The amounts are interest-free, except for the amount due to the ultimate holding company which bears interest at 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China (2004(Unaudited): 5.022%, being 10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).

## 25. OTHER RECEIVABLES

	Notes	2005	2004
		HK\$ '000	HK\$ '000 (Unaudited) (Restated)
Prepayments, deposits and other receivables		1,199,517	1,110,075
Prepaid land lease payments	14	5,440	3,807
Trademark fee reinvestment	20(b)	25,635	
Prepaid royalty	21	39,751	55,927
Due from Thomson Group	24		152,450
		<u>1,270,343</u>	<u>1,322,259</u>

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## 26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000 (Unaudited)</b>
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	<b>47,594</b>	<b>116,894</b>

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 Call Option Agreement 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 fair value of the Call Option at the balance sheet date was estimated by the directors using the binomial model, taking into account the terms and conditions upon which the Call Option was granted.

## 27. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000 (Unaudited)</b>
Total cash and bank balances	1,952,122	1,833,272
Less: Time deposits pledged for banking facilities	(90,165)	
Cash and bank balances	<b>1,861,957</b>	<b>1,833,272</b>

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 approximates to their fair values.

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## 28. TRADE AND BILLS PAYABLES

	Notes	2005	2004
		HK\$ 000	HK\$ 000 (Unaudited)
Due to third parties:			
Trade payables		5,300,868	3,938,055
Bills payable		978,540	974,717
		<u>6,279,408</u>	<u>4,912,772</u>
Due to related parties:			
Companies controlled by TCL Corporation	24	226,011	245,864
Thomson Group	24	242,159	1,430,065
Jointly-controlled entities	24	119,564	60,512
		<u>587,734</u>	<u>1,736,441</u>
		<u>6,867,142</u>	<u>6,649,213</u>

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

	2005	2004
	HK\$ 000	HK\$ 000 (Unaudited)
Current to 90 days	6,547,730	6,123,466
91 to 180 days	77,039	479,123
181 to 365 days	197,155	15,610
Over 365 days	45,218	31,014
	<u>6,867,142</u>	<u>6,649,213</u>

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

## 29. OTHER PAYABLES AND ACCRUALS

The Group's other payables are non-interest-bearing and are expected to be settled within one year.

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## 30. PROVISIONS

	<b>Restructuring costs</b>	<b>Warranties</b>	<b>Total</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>	<b>HK\$ 000</b>
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	<u>51,427</u>	<u>145,975</u>	<u>197,402</u>

Restructuring costs

A restructuring plan was drawn up in 2004 for certain reorganisation and rationalisation of the Group's business in order to optimise its industrial base and hence profitability. The restructuring is expected to be completed by the end of 2006.

Pursuant to the Restructuring Cost Reimbursement Agreement dated 30 July 2004 (and as supplemented and amended by the Reimbursement Agreement Amendment dated 1 September 2005), Thomson agreed to reimburse TTE up to Euro 38 million (2004(Unaudited): Euro 33 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\$164,587,000 (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.

Warranties

The Group provides warranties of three months to one year 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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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	2005	2004
			HK\$ 000	HK\$ 000 (Unaudited)
<b>Current</b>				
Bank overdrafts - secured	5.6	2006	83,472	
Bank overdrafts - unsecured	LIBOR/EURIBOR+0.6	2006	57,995	
Bank loans - secured	4.5	2006	19,382	
Bank loans - unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8 )	On demand	1,538,300	244,118
Bank loans - unsecured	3.1 to 5.6	2006	328,625	120,259
Advances from banks as consideration for Factored Receivables and Discounted Bills	LIBOR+(0.3 to 0.5 )	2006	828,433	
Advances from a factoring company as consideration for Factored Receivables	EURIBOR+0.5	2006	302,621	
Trust receipt loans - secured	HIBOR/SIBOR/ LIBOR+(0.4 to 1.7 )	2006	48,706	
Trust receipt loans - unsecured	HIBOR+(0.5 to 1.5 )	2006	273,511	205,742
			<u>3,481,045</u>	<u>570,119</u>
<b>Non-current</b>				
Bank loans - unsecured	HIBOR/LIBOR/ EURIBOR+(0.6 to 0.8 )	2007 to 2009		1,622,134
			<u>3,481,045</u>	<u>2,192,253</u>

	2005	2004
	HK\$ 000	HK\$ 000 (Unaudited)
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	3,178,424	570,119
In the second year		94,118
In the third to fifth years, inclusive		1,528,016
	<u>3,178,424</u>	<u>1,622,134</u>

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Other borrowings repayable within one year	3,178,424	2,192,253
	302,621	
	<u>                    </u>	<u>                    </u>
	3,481,045	2,192,253
	<u>                    </u>	<u>                    </u>

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## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

- (a) The Group's overdraft facilities amounting to HK\$175,443,000 (2004(Unaudited): Nil), of which HK\$141,467,000 (2004(Unaudited): Nil) had been utilised as at the balance sheet date, are secured by the pledged of certain of the Group's time deposits and property, plant and equipment amounting to HK\$59,911,000 (2004(Unaudited): Nil) and HK\$90,090,000 (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 amounting to HK\$30,254,000 (2004(Unaudited): Nil).
- (c) As at 31 December 2005, the carrying amounts of the Group's and the Company's bank and other borrowings approximated to their fair values.
- (d) Except for the secured bank loans and overdrafts with a carrying amount of HK\$19,382,000 (2004(Unaudited): Nil) and HK\$83,472,000 (2004(Unaudited): Nil), respectively, and the unsecured bank loans of HK\$328,625,000 (2004(Unaudited): HK\$120,259,000), 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\$91,267,000 (2004(Unaudited): Nil) as at the balance sheet date.

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

	<u>2005</u>	<u>2004</u>
	HK\$ 000	HK\$ 000
		(Unaudited)
United States dollars	1,606,655	1,050,420
Euro	574,718	586,676
Japanese Yen	561	2,544
	<u>          </u>	<u>          </u>

Breach of loan covenants

As at 31 December 2005, in respect of certain bank loans with an aggregate carrying amount of HK\$1,538,300,000, the Group breached certain of the terms of the bank loans, which are primarily related to the value of the Group's consolidated tangible net worth and the Group's interest cover ratio. On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with the relevant banks. As at 31 December 2005, those negotiations had not been concluded.

Since the lenders have not agreed to waive its right to demand immediate payment as at the balance sheet date, the loans have been classified as current liabilities in these financial statements at 31 December 2005.

On 31 March 2006, the Group successfully obtained the required consent from the majority of the lenders for the Group's waiver request.

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 32. DUE TO A SHAREHOLDER/MINORITY SHAREHOLDER

The loan is due to Thomson, bears interest at rates ranging from 2.36% to 4.26% (2004(Unaudited): 2.36%) per annum (being the cost of fund of Thomson). The entire loan was secured by the Group's trade receivables with a carrying value of HK\$536,364,000 (2004(Unaudited): HK\$1,033,796,000) as at 31 December 2005. Such loan amount shall, from the first anniversary of the closing of the Combination Agreement (i.e., 30 July 2004), be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated.

After the Share Exchange transaction on 10 August 2005, Thomson became a shareholder of the Company.

## 33. CONVERTIBLE NOTES

	<u>2005</u>	<u>2004</u>
	HK\$ 000	HK\$ 000
At beginning of year	256,000	347,000 (Unaudited)
Redeemed during the year	(256,000 )	(91,000 )
At 31 December 2005	<u>          </u>	<u>256,000</u>

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 are payable semi-annually in arrears.

Conversion period

The conversion period commenced on 8 November 2002 and ended on 8 November 2005.



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## 33. CONVERTIBLE NOTES (continued)

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.

## 34. DEFERRED TAX

Deferred tax liabilities

		Accelerated tax		
	Notes	depreciation	Others	Total
		HK\$ 000	HK\$ 000	HK\$ 000
At 1 January 2004 (Unaudited)		1,416	431	1,847
Acquisition of subsidiaries (Unaudited)	38(b)	29,305		29,305
Deferred tax charged/(credited) to the income statement during the year (Unaudited)	10	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	10	(9,769)		(9,769)
Exchange realignment		(163)		(163)
Gross deferred tax liabilities at 31 December 2005		24,057		24,057

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## 34. 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)	38(b)			6,003		6,003
Deferred tax credited to the income statement during the year (Unaudited)	10	675	947	1,313		2,935
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	10	2,000	6,515	981	782	10,278
Exchange realignment			( 102 )	( 1,037 )	( 32 )	( 1,171 )
Gross deferred tax assets at 31 December 2005		7,300	11,590	8,050	750	27,690

The Group has tax losses of HK\$1,687,303,000 (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 2005, there was no significant unrecognised deferred tax liability (2004(Unaudited): Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities.

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

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 35. 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.

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Net benefit expense		
Current service cost	21,469	4,421
Interest cost on benefit obligation	5,899	2,921
Net cumulative actuarial gain recognised in the income statement	(3,489 )	
	<hr/>	<hr/>
Net benefit expense	23,879	7,342
	<hr/>	<hr/>
Benefit liabilities		
Benefit obligation	167,088	141,043
Unrecognised net actuarial losses	( 1,473 )	( 10,993 )
	<hr/>	<hr/>
Benefit liabilities	165,615	130,050
	<hr/>	<hr/>

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

At 1 January	130,050	
Acquisition of subsidiaries (note 38(b))	29,992	122,046
Benefit expense (note 6)	23,879	7,342
Contributions	(3,731 )	( 42 )
Exchange realignment	( 14,575 )	704
	<hr/>	<hr/>
At 31 December	165,615	130,050
	<hr/>	<hr/>

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

	<b>2005</b>	<b>2004</b>
	<b>%</b>	<b>%</b>
		<b>(Unaudited)</b>
Discount rate	2.5 4.0	4.0 5.5
Future salary increases	2.0 5.0	1.0 7.0

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Future pension increases	1.0		1.3	3.5
Healthcare cost increase rate	5.0	9.5	5.0	9.5

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 36. SHARE CAPITAL

Shares

	<u>2005</u>	<u>2004</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u> (Unaudited)
Authorised:		
5,000,000,000 shares of HK\$0.10 each	500,000	500,000
Issued and fully paid:		
3,902,951,727 (2004(Unaudited): 2,757,960,632) shares of HK\$0.10 each	390,295	275,796

During the year, the movements in share capital (including share premium) were as follows:

- The subscription rights attaching to 809,000 share options were exercised, resulting in the issue of 809,000 shares of HK\$0.10 each for a total cash consideration of HK\$804,000.
- On 10 August 2005, pursuant to the Exchange Option Agreement, Thomson exercised the Exchange Option to exchange its 33% equity interest in TTE for shares in the Company (the Share Exchange). As a result, a total of 1,144,182,095 shares of HK\$0.10 each were issued to Thomson at a market price of HK\$1.43 per share on 10 August 2005. Further details of the Share Exchange are set out in note 43 to the consolidated financial statements.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital and share premium account is as follows:

	<u>Numbers of shares in issue</u>	<u>Issued share capital</u>	<u>Share premium account</u>	<u>Total</u>
		<u>HK\$ 000</u>	<u>HK\$ 000</u>	<u>HK\$ 000</u>
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	3,902,951,727	390,295	1,560,215	1,950,510



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36. SHARE CAPITAL (continued)

Exchange Option

Pursuant to the Exchange Option Agreement, the Company granted the Exchange Option to Thomson to exchange all of Thomson's 33% equity interest in TTE for 1,149,140,810 new shares to be issued by the Company, subject to adjustments. The Exchange Option is exercisable from 27 September 2004 to 16 July 2005, subject to certain extensions.

Thomson confirmed to exercise the Exchange Option on 13 July 2005 and completion of the exercise took place on 10 August 2005. Further details of the Exchange Option were set out in note 43 to the consolidated financial statements.

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).

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36. SHARE CAPITAL (continued)

Share options (continued)

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 2005, the number of shares issuable under share options granted under the schemes was 183,342,861, which represented approximately 4.7% of the Company's shares in issue as at that date.

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## 36. 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						Date of grant <sup>Δ</sup>	Exercise price	Exercise period	Price of Company's shares at date of grant <sup>#</sup>	Price of Company's shares immediately before the exercise date*	Price of Company's shares at exercise date*
	At 1 January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2005						
<b>Directors</b>										HK\$	HK\$	HK\$
<u>Executive directors</u>												
Li Dong Sheng			5,000,000			5,000,000	31 May 2005	1.400	Note 4	1.410		
Lu Zhong Li			2,500,000			2,500,000	31 May 2005	1.400	Note 4	1.410		
Hu Qiu Sheng			2,500,000			2,500,000	31 May 2005	1.400	Note 4	1.410		
Yan Yong, Vincent	68,000					68,000	30 January 2003	2.114	Note 3	2.075		
			3,450,000			3,450,000	31 May 2005	1.400	Note 4	1.410		
	68,000		3,450,000			3,518,000						
Suen Hay Wai, Felipe	234,000	(234,000 )					30 January 2003	2.114	Note 3	2.075		
		(950,000 )	950,000				31 May 2005	1.400	Note 4	1.410		
	234,000	(1,184,000 )	950,000									
Zhao Zhong Yao	68,000					68,000	30 January 2003	2.114	Note 3	2.075		
			3,200,000			3,200,000	31 May 2005	1.400	Note 4	1.410		
	68,000		3,200,000			3,268,000						
	370,000	(1,184,000 )	17,600,000			16,786,000						



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## 36. SHARE CAPITAL (continued)

Share options (continued)

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

Name or category of participant	Number of share options						Date of grant <sup>Δ</sup>	Exercise price	Exercise period	Price of Company shares at date of grant <sup>#</sup>	Price of Company shares immediately before the exercise date*	Price of Company shares at exercise date*
	At 1 January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Expired during the year	At 31 December 2005						
<i>Non-executive directors</i>												
Albert Thomas da Rosa, Junior			300,000			300,000	31 May 2005	1.400	Note 4	1.410		
Tang Guiliang			300,000			300,000	31 May 2005	1.400	Note 4	1.410		
Wang Bing			300,000			300,000	31 May 2005	1.400	Note 4	1.410		
Hon Fong Ming, Perry			300,000			300,000	31 May 2005	1.400	Note 4	1.410		
			1,200,000			1,200,000						
<b>Other employees</b>												
	1,894,000			(809,000)	(1,085,000)		29 October 2001	0.994	Note 1	0.990	1.886	1.886
	10,000,000					10,000,000	November 2002	2.305	Note 2	2.175		
	20,052,861	234,000				20,286,861	30 January 2003	2.114	Note 3	2.075		
		950,000	134,120,000			135,070,000	31 May 2005	1.400	Note 4	1.410		
	31,946,861	1,184,000	134,120,000	(809,000)	(1,085,000)	165,356,861						
	32,316,861		152,920,000	(809,000)	(1,085,000)	183,342,861						

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## 36. SHARE CAPITAL (continued)

Share options (continued)

Note 1 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 28 April 2005.

Note 2 Such share options are exercisable after the expiry of 9 months from the date of grant, up to 3 May 2006.

Note 3 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 29 July 2006.

Note 4 One-third of such share options are exercisable after the expiry of 9 months from the date of grant, a further one-third is exercisable after the expiry of 18 months from the date of grant, and the remaining one-third is exercisable after the expiry of 27 months from the date of grant, up to 30 November 2008.

# 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.

\* The price of the Company's shares disclosed immediately before the exercise day and as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices immediately before the exercise dates and as at the dates on which the options were exercised over all of the exercises of options within the disclosure category.

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

The fair value of the share options granted during the year was HK\$57,081,000. The fair value of equity-settled share options granted during the 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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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 37. RESERVES

## Attributable to equity holders of the parent

	Share premium account	Share option reserve	Capital reserve <sup>^</sup>	Reserve funds*	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
	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 exercise of share options (note 36) (Unaudited)	65,883						65,883		65,883
Issue of shares upon conversion of convertible notes (note 36) (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			
Net profit/(loss) for the year (as restated) (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)
Equity-settled share option arrangements (Unaudited)		7,729					7,729		7,729
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 11) (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 38(a))						(520,725)	(520,725)		(520,725)
Issue of shares upon exercise of share options (note 36)	723						723		723
Issue of shares upon exercise of the Exchange Option (note 36)	1,521,762						1,521,762		1,521,762
Exchange realignment					(33,933)		(33,933)	(28,867)	(62,800)
Net loss for the year						(598,893)	(598,893)	(104,374)	(703,267)
Dividends paid to minority shareholders								(21,110)	(21,110)

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Acquisition of minority interests (note 38(a))							(1,159,255)	(1,159,255)
Equity-settled share option arrangements	28,661		81,074		(81,074)	28,661		28,661
Transfer from retained profits								
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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## 37. RESERVES (continued)

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

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

The amount of goodwill arising on the acquisition of a subsidiary remaining eliminated against the capital reserve is explained in note 15 to the consolidated financial statements.

## 38. BUSINESS COMBINATION

(a) Acquisition of minority interests

The Share Exchange took place on 10 August 2005 and represented an acquisition of minority interests in TTE by the Company from Thomson. Further details of this transaction are included in note 43 to the consolidated financial statements.

The carrying amounts 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:

	<b>HK\$ '000</b>
Carrying amount of 33% equity interest in TTE	1,159,255
Goodwill arising from the Share Exchange	520,725
	<u>1,679,980</u>
Satisfied by:	
Issue of shares of the Company at fair value (note 36)	1,636,180
Cash	43,800
	<u>1,679,980</u>

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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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 38. BUSINESS COMBINATION (continued)

## (b) Acquisition of subsidiaries

During the year, the Group acquired the entire equity interest of certain subsidiaries from Thomson. The subsidiaries acquired are engaged in product sales, marketing and management, the design and styling activities related to television products. Further details of these acquisitions are included in note 43 to the consolidated financial statements.

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:

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		HK\$ 000	HK\$ 000 (Unaudited) (Restated)
Net assets acquired:			
Property, plant and equipment	13		1,202,938
Prepaid land lease payments	14		29,453
Long term investments			1,164
Long term receivables			258,775
Deferred tax assets	34		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	34		(29,305)
Pensions and other post-employment benefits	35	(29,992)	(122,046)
Minority interests			(688,372)
		<u>11,473</u>	<u>1,528,611</u>
Negative goodwill on acquisition	15		(597,836)
		<u>11,473</u>	<u>930,775</u>
Satisfied by:			
Cash		11,473	213,785
33% interests in the Group's television business			630,388
Costs associated with the acquisition			86,602
		<u>11,473</u>	<u>930,775</u>

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## 38. BUSINESS COMBINATION (continued)

## (b) Acquisition of subsidiaries (continued)

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

	<u>2005</u>	<u>2004</u>
	<u>HK\$ 000</u>	<u>HK\$ 000</u>
		<b>(Unaudited)</b>
Cash paid	(11,473 )	(300,387 )
Cash and bank balances acquired		140,910
	<u>(11,473 )</u>	<u>(159,477 )</u>

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

## (c) Disposal of a subsidiary

	<u>Note</u>	<u>2005</u>	<u>2004</u>
		<u>HK\$ 000</u>	<u>HK\$ 000</u>
			<b>(Unaudited)</b>
Net assets disposed of:			
Property, plant and equipment			2,391
Goodwill			4,673
Inventories			555
Cash and bank balances			2,958
Trade and bills receivables			551
Prepayments, deposits and other receivables			3,129
Trade and bills payables			(243 )
Other payables and accruals			(2,729 )
Short term bank loan			(943 )
Tax payable			(374 )
Minority interests			(5,034 )
		<u>4,934</u>	<u>(2,075 )</u>
Loss on disposal	6		
Satisfied by cash			<u>2,859</u>

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## 38. BUSINESS COMBINATION (continued)

## (c) Disposal of a subsidiary (continued)

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

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Cash consideration received		2,859
Cash and bank balances disposed of		(2,958 )
	<u>          </u>	<u>          </u>
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary		(99 )
	<u>          </u>	<u>          </u>

The results of the subsidiary disposed of in the year ended 31 December 2004 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

## 39. 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 2005, the Group had total minimum lease receivables under non-cancelable operating leases with its tenants falling due as follows:

	<u>2005</u>	<u>2004</u>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Within one year	4,314	
In the second to fifth years, inclusive	12,171	
	<u>          </u>	<u>          </u>
	<u>16,485</u>	<u>          </u>

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 39. OPERATING LEASE ARRANGEMENTS (continued)

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

	<u>2005</u>	<u>2004</u>
	HK\$ 000	HK\$ 000
		(Unaudited)
Within one year	39,944	25,415
In the second to fifth years, inclusive	77,679	17,192
After five years	16,851	222
	<u>134,474</u>	<u>42,829</u>

## 40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following capital commitments at the balance sheet date:

	<u>2005</u>	<u>2004</u>
	HK\$ 000	HK\$ 000
		(Unaudited)
Contracted, but not provided for	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:

	<u>2005</u>	<u>2004</u>
	HK\$ 000	HK\$ 000
		(Unaudited)
Contracted, but not provided for		88

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41. CONTINGENT LIABILITIES

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

	<b>2005</b>	<b>2004</b>
	<b>HK\$ 000</b>	<b>HK\$ 000</b>
		<b>(Unaudited)</b>
Bills discounted with recourse		46,396
Guarantees given in lien of utility and rental deposits	4,446	3,525
	<b>4,446</b>	<b>49,921</b>

42. 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 13, 31 and 32 to the consolidated financial statements.

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## TCL MULTIMEDIA TECHNOLOGY HOLDINGS LIMITED

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## 43. RELATED PARTY TRANSACTIONS

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

	Notes	2005	2004
		HK\$ 000	HK\$ 000
			(Unaudited)
Jointly-controlled entities:			
Sales of raw materials	(i)	1,186,725	1,400,358
Sales of finished goods	(ii)	97,642	78,592
Purchases of finished goods	(iii)	1,280,408	1,497,427
Ultimate holding company:			
Interest expense	(iv)	21,762	20,368
Companies controlled by TCL Corporation:			
Sales of raw materials	(i)	4,654	29,151
Purchases of raw materials	(iii)	608,839	581,500
Purchases of finished goods	(iii)	108,217	41,501
Sales handling fee income	(v)		858
Subcontracting fee expense	(vi)	13,066	16,926
Thomson Group:			
Sales of finished goods	(ii)	293,538	351,743
Purchases of raw materials	(iii)	2,077,850	1,738,305
Purchases of finished goods	(vii)	838,580	1,024,748
Agency fee and cost reimbursement expense	(viii)	872,207	454,977
Styling service fee expense	(viii)	21,744	18,980
Shared service fee expense	(viii)	241,687	129,336
Interest expense	(ix)	24,783	9,083
Patent royalty expense	(x)	30,991	18,670
Reimbursement of brand advertising costs	(xi)	14,476	11,973
Trademark royalty fee	(xii)	20,025	
Strategic sourcing fee expense	(xiii)	27,000	11,848
After-sales and related services fee expense	(viii)	16,787	
Laboratory service fee expense	(viii)	1,314	
Reimbursement of reorganisation costs	(xiv)	57,903	
Subcontracting fee expense	(xv)	234,285	
Styling service fee income	(xvi)	1,608	
Logistics management service fee income	(xvi)	965	

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43. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The sales of raw materials were made at a gross margin of 0-1%.
- (ii) The sales of finished goods were made by reference to the prevailing market price for comparable transactions.
- (iii) The purchases of raw materials and finished goods were made at prices similar to those set by independent third party suppliers.
- (iv) The interest was charged at 2.8% per annum, being the discount rate for bills of exchange offered by the People's Bank of China (2004(Unaudited): 5.022%, being 10% discount below the six-month to one-year short term loan interest rate declared by the People's Bank of China).
- (v) The sales handling fee income was calculated at 1.7% of the invoiced sales of the products distributed.
- (vi) The subcontracting fee was determined by reference to subcontracting fees charged by third party companies offering similar services.
- (vii) The purchases of finished goods were made at terms such that the Group shall incur no loss and realise no profit from the arrangement.
- (viii) 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.
- (ix) The interest was charged at rates ranging from 2.36 to 4.26% (2004(Unaudited): 2.36%) per annum, being the cost of fund of Thomson.
- (x) 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.
- (xi) 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.

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43. RELATED PARTY TRANSACTIONS (continued)

Notes (continued):

- (xii) No royalty fee was charged by Thomson Group for the period from 1 January 2005 to 20 July 2005. From 21 July 2005 onwards, the trademark royalty fee was charged by Thomson Group at 0.4% and 0.2% for Thomson A Brands and Thomson B Brands, respectively, as defined in the Amendment to Thomson Trademark License Agreement dated 1 September 2005.
- (xiii) The strategic sourcing fee expense was charged at an annual fee of Euro 2.85 million (approximately HK\$27 million) by Thomson Group, subject to adjustments.
- (xiv) 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 and Restated Agreement (Angers) dated 1 September 2005. The Group is required to pay a total amount of Euro 20 million (equivalent to approximately HK\$184 million) over a period of five years, ranging from Euro 6 million (equivalent to approximately HK\$58 million) in 2005 to Euro 2 million (equivalent to approximately HK\$18 million) in 2009.
- (xv) 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.
- (xvi) The styling service fee and logistics management service fee were charged by the Group at cost.
- (b) Other transactions with related parties:
  - (i) On 21 April 2005, the Company, TTE and Thomson entered into two binding memoranda of understanding (the MOUs) in respect of (i) the sales and marketing activities of the Group's products in the United States, Canada and Europe and (ii) the operation of the Angers Factory located in France. The MOUs provide that the parties will enter into a number of definitive agreements to implement the principles contained in the MOUs. Further details of the MOUs were set out in the Company's announcement dated 21 April 2005.
  - (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 TCL Electrical Appliance Sales Co., Ltd. (the Sales Company) owned by TCL Corporation at a consideration of Euro 6.5 million (equivalent to approximately HK\$60 million). This acquisition was completed on 10 May 2006 and since then the Sales Company became a wholly-owned subsidiary of the Group. Goodwill of approximately HK\$60 million (unaudited) arose from this transaction.

Further details of this acquisition were set out in the Company's announcement dated 5 July 2005.

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43. RELATED PARTY TRANSACTIONS (continued)

- (iii) On 12 July 2005, the Group and Thomson entered into the North America Transfer Agreement and the European Master Transfer Agreement (collectively the Transfer Agreements) for the transfer of the sales and marketing activities in Europe and North America, respectively, from Thomson to TTE. The closing of the Transfer Agreements gave rise to the termination or modifications of certain agreements (the Related Agreements) entered into between the Group and Thomson when TTE was established in 2004. Further details of the Transfer Agreements and the Related Agreements were set out in the announcement and the circular of the Company dated 12 July 2005 and 2 August 2005, respectively. On 1 September 2005, the Group and Thomson further entered into the Transfer Closing Agreement to modify certain terms of the Transfer Agreements. Further details of the Transfer Closing Agreement were set out in the Company's announcement dated 2 September 2005.
- (iv) On 26 July 2005, the Company entered into a sale and purchase agreement with Opta Systems, LLC, a 51%-owned subsidiary of TCL Corporation, to purchase certain intellectual property rights including trademarks, service marks, patents applications and copyrights at an initial consideration of US\$10 million, subject to adjustments by reference to a final valuation of the relevant intellectual property rights. Further details of this acquisition were set out in the Company's announcement dated 29 July 2005.
- (v) On 10 August 2005, pursuant to the Exchange Option Agreement, the Company entered into the Option Closing Agreement with Thomson. Pursuant to the Option Closing Agreement, Thomson exercised the Exchange Option to exchange its 33% equity interest in TTE for shares in the Company (the Share Exchange). The completion of the Share Exchange took place on the same day and a total of 1,144,182,095 shares representing 29.32% of the enlarged issued share capital of the Company were issued to Thomson. In addition, according to the Exchange Option Agreement, the Company made a cash payment of HK\$43,800,000 to Thomson as additional consideration for the Share Exchange. Further details of this transaction were set out in the Company's announcement dated 10 August 2005.
- (vi) On 31 December 2005, the Company, TCL Corporation, TTE and Thomson entered into the Settlement Agreement and pursuant to the Settlement Agreement, the Group agreed to pay to Thomson and Thomson also agreed to pay to the Group an aggregate amount of HK\$17,474,000 and HK\$51,513,000, respectively, as compensation for the shortfall of assets contribution by each other according to the Combination Agreement.
- (vii) During the year, the Group used certain registered trademarks of TCL Corporation, including TCL and Rowa, for the manufacture and sale of television products. No royalty was paid to TCL Corporation because, according to the TCL Trademark License Agreement dated 30 July 2004, no royalty shall be payable by the Group prior to the second anniversary of the closing (i.e. 30 July 2004) of the Combination Agreement.

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43. RELATED PARTY TRANSACTIONS (continued)

Except for 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.

44. 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 2.5 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 long term 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. On specific 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.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

*Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional 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 are normally in short-term nature with a maximum of a six-month period which corresponds to the Group's sales cycle. It is the Group's policy to borrow and invest excess cash in the functional currency of its businesses to minimise its foreign currency exposures.

*Credit risk*

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

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

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

*Liquidity risk*

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

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45. POST BALANCE SHEET EVENTS

- (a) 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.
- (b) 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 a finance company in the PRC (the Finance Company ). Pursuant to the Investment Agreement, TCL King Huhehaote is required to contribute RMB70 million (the Capital Contribution ) as capital contribution to the Finance Company, representing 14% of the registered capital of the Finance Company.

The Capital Contribution was made by the Group on 9 March 2006 and the establishment of the Finance Company is subject to the obtaining of the approval from the relevant PRC authorities, including but not limited to the China Banking Regulatory Commission.

Further details of this transaction were set out in the Company's announcement dated 9 March 2006.

46. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the consolidated financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 June 2006.

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48. 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 ). A narrative discussion on the significant differences between HKFRSs and USGAAP applicable to the Group are summarised below:

**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.

**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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**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 acquiree's 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.

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 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. 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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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**Accounting for negative goodwill**

Under HKFRSs, negative goodwill represents the excess of the acquirer's interest in the net fair value of the acquiree's 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.

**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.

**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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**Impairment of long-lived assets (continued)**

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.

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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**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.

**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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**Accounting for derivatives (continued)**

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.

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.

**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.

**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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**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).

**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.

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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**Deferred income taxes (continued)**

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.

**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 plan 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.

**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.

**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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48. SUMMARY OF DIFFERENCES BETWEEN HKFRSs AND USGAAP (continued)

**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.

**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.

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.

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**Corporate Headquarters**

46, quai Alphonse Le Gallo

92100 Boulogne-Billancourt - France

Email: [webmaster@thomson.net](mailto:webmaster@thomson.net)

Tel.: +33 (0)1 41 86 50 00 - Fax : +33 (0)1 41 86 58 59

**Thomson Inc**

10330 North Meridian Street

Indianapolis, IN 46290-1024

Tel.: +1 317 587 3000 - Fax: +1 317 587 6765

3233, East Mission Oaks Boulevard

Camarillo, CA 93012 - United States

Tel.: +1 805 445 1122 - Fax: +1 805 445 1141

**[www.thomson.net](http://www.thomson.net)**

Thomson - SA with a capital of 1 024 905 120 - 333 773 174 R.C.S Nanterre

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