

# Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## **PRINCIPAL ACTIVITIES**

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

## **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 103.

The directors recommend the payment of a final dividend of 4 HK cents per share in respect of the year to shareholders on the register of members on 6 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

## **FIVE YEAR FINANCIAL SUMMARY**

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and adjusted as appropriate, is set out on page 104. This summary does not form part of the audited financial statements.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 35 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

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

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements.

## **DISTRIBUTABLE RESERVES**

At 31 December 2004, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$2,446,042,000, of which HK\$110,346,000 has been proposed as a final dividend for the year. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

### MAJOR CUSTOMERS AND SUPPLIERS

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

#### Purchases

— the largest supplier	8%
— the five largest suppliers combined	26%

#### Sales

— the largest customer	7%
— the five largest customers combined	14%

Companies controlled by a minority shareholder of a subsidiary of the Company are the Group's three largest suppliers. Save as disclosed above, none of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

### DIRECTORS

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

#### Executive directors:

Li Dong Sheng (Chairman)

Yuan Xin Cheng (resigned on 18 May 2004)

Lu Zhong Li

Hu Qiu Sheng

Zhao Zhong Yao (appointed on 18 May 2004)

Yan Yong, Vincent (Managing Director)

Suen Hay Wai, Felipe

#### Non-executive director:

Albert Thomas da Rosa, Junior (re-designated as non-executive director on 30 September 2004)

#### Independent non-executive directors:

Tang Guliang (appointed on 30 September 2004)

Wang Bing (appointed on 30 September 2004)

Hon Fong Ming

In accordance with article 99 of the Company's article of association, Zhao Zhong Yao's appointment will cease at the conclusion of the forthcoming annual general meeting and he, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with article 116 of the Company's articles of association, Li Dong Sheng, Hu Qiu Sheng and Suen Hay Wai will retire by rotation, and Li Dong Sheng and Hu Qiu Sheng, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

All non-executive directors will cease to hold such office at the conclusion of the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### **DIRECTORS (continued)**

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

### **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 28 to 32 of the annual report.

### **DIRECTORS' SERVICE CONTRACTS**

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

### **DIRECTORS' INTERESTS IN CONTRACTS**

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

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

At 31 December 2004, the interests and short positions of the directors and chief executive in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

#### **(i) Long positions in shares of the Company**

<b>Name of directors</b>	<b>Type of interest</b>	<b>Number of shares held</b>	<b>Percentage of the Company's issued share capital</b>
Li Dong Sheng	Beneficial owner	28,232,000	1.02
Zhao Zhong Yao	Beneficial owner	232,000	0.008

#### **(ii) Long positions in underlying shares of the Company — share options**

<b>Name of directors</b>	<b>Type of interest</b>	<b>Number of shares involved</b>	<b>Percentage of the Company's issued share capital</b>
Zhao Zhong Yao	Beneficial owner	68,000	0.003
Yan Yong, Vincent	Beneficial owner	68,000	0.003
Suen Hay Wai, Felipe	Beneficial owner	234,000	0.008

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)****(iii) Long positions in shares of associated corporations of the Company**

Name of directors	Name of associated corporation	Number of shares held	Type of interest	Percentage of the associated corporation's issued share capital
(Notes)				
Li Dong Sheng	TCL Corporation	144,521,730	Beneficial owner	5.59
Li Dong Sheng	TCL Communication	18,080,800	Beneficial owner	0.64
Lu Zhong Li	TCL Corporation	23,569,661	Beneficial owner	0.91
Hu Qiu Sheng	TCL Corporation	19,012,888	Beneficial owner	0.74
Zhao Zhong Yao	TCL Corporation	6,434,031	Beneficial owner	0.25
Zhao Zhong Yao	TCL Communication	92,800	Beneficial owner	0.003
Suen Hay Wai	TCL Communication	113,600	Beneficial owner	0.004

Notes:

- (a) TCL Corporation is the ultimate controlling shareholder of the Company.
- (b) TCL Communication Technology Holdings Limited ("TCL Communication"), a company controlled by TCL Corporation, is a fellow subsidiary of the Company.

Save as disclosed above, as at 31 December 2004, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 35 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

**SHARE OPTION SCHEMES**

Concerning the share options granted during the year, as detailed in note 35 to the financial statements, the directors do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period and the conditions that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful.

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

At 31 December 2004, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions in shares of the Company:

Name	Type of interest	Number of shares held	Percentage of the Company's issued share capital
TCL Corporation	Through an interest of controlled corporation	1,512,121,289 (Note)	54.83

Note: TCL Corporation was deemed to be interested in 1,512,121,289 shares in the Company held by T.C.L. Industries Holdings (H.K.) Ltd., a direct wholly-owned subsidiary of TCL Corporation.

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the share or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CONNECTED TRANSACTIONS

During the year, the Group entered into a number of connected transactions and continuing connected transactions with the following connected persons (as defined in the Listing Rules), namely:

- (1) TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (being an associate of TCL Corporation); and
- (2) Thomson S.A. ("Thomson") (being a controlling shareholder of TTE Corporation ("TTE"), a non-wholly owned subsidiary of the Company) and its subsidiaries (being an associate of Thomson).

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2004:

- (a) The Company entered into the Combination Agreement dated 28 January 2004 (the "Combination Agreement") with TCL Corporation and Thomson under which the Company and Thomson agreed to combine their respective TV businesses and assets under the ownership and management of TTE.
- (b) TCL Holdings (BVI) Limited ("TCL BVI") (a subsidiary of the Company) entered into the agreement dated 28 May 2004 with T.C.L. Industries Holdings (H.K.) Ltd. ("TCL Industries") (a wholly-owned subsidiary of TCL Corporation) under which TCL BVI purchased from TCL Industries a 70% equity interest in TCL Digital Science and Technology (Wuxi) Company Limited ("Wuxi Co") at a consideration of RMB105.7 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 70% equity interest in Wuxi Co and inject the same into TTE.

**CONNECTED TRANSACTIONS (continued)**

- (c) TCL BVI entered into an agreement dated 28 May 2004 with TCL Corporation and TCL Home Appliances (Huizhou) Company Limited (a wholly-subsiary of TCL Corporation) under which TCL BVI acquired the 100% equity interest in Inner Mongolia TCL Electrical Appliance Company Limited (“Inner Mongolia Co”) at a consideration of RMB125.8 million. The Company was required under the Combination Agreement to acquire from TCL Corporation the said 100% equity interest in Inner Mongolia Co and inject the same into TTE.

The Group entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2004:

- (a) Pursuant to the Overseas Distribution Agreement dated 9 May 2002 entered into between TCL Overseas Holdings Limited (a subsidiary of the Company) and TCL Corporation and certain of its subsidiaries in connection with the distribution of white goods in territories other than the PRC, the Group purchased finished goods amounting to HK\$38,860,000 during the year.
- (b) The Company entered into the Master Overseas Supply Agreement dated 29 December 2004 with TCL Corporation under which the Company and its subsidiaries will enter into transactions with TCL Corporation and its subsidiaries (the “Supplier Group”) for purchase of any electronic or electrical goods or appliances manufactured, produced or otherwise sold or supplied by any member of the Supplier Group for supply or sale to a place in any territories other than the PRC. The Master Overseas Supply Agreement when becoming effective (on 22 February 2005) would replace the Overseas Distribution Agreement dated 9 May 2002 (the “Existing Agreement”). The suppliers under the Existing Agreement are confined to certain entities within the Supplier Group whereas the suppliers under the Master Overseas Supply Agreement covered all members of the Supplier Group. The purchasers under the Existing Agreement are confined to TCL Overseas Holdings Limited and its subsidiaries whereas the purchasers under the Master Overseas Supply Agreement covered all members of the Group.

As the Master Overseas Supply Agreement became effective on 22 February 2005, during the year, no goods was purchased by the Group from the Supplier Group under this agreement.

- (c) Pursuant to the PRC Distribution Agreement dated 9 May 2002 entered into between TCL Electrical Appliance Sales Co., Ltd. (a subsidiary of the Company) and TCL Corporation and certain of its subsidiaries in connection with the distribution of white goods in the PRC, handling fee income receivable by the Group amounted to HK\$858,000 during the year.
- (d) Pursuant to the Master Supply Agreement dated 20 December 2001 entered into between TCL Overseas Holdings Limited and Huizhou TCL Mobile Communication Co., Ltd. (“TCL Mobile”) in connection with the distribution of goods manufactured, produced or sold by TCL Mobile in the territories other than the PRC, the Group purchased finished goods amounting to HK\$2,641,000 during the year.
- (e) Pursuant to the Master Supply Agreement dated 15 November 1999 entered into between the Company and TCL Corporation, the Group (i) purchased TV related components and materials from TCL Corporation and certain of its subsidiaries amounting to HK\$248,468,000 and; (ii) sold raw materials to certain subsidiaries of TCL Corporation amounting to HK\$11,792,000 during the year.

#### **CONNECTED TRANSACTIONS (continued)**

- (f) Pursuant to the Distribution Agreement dated 15 November 1999 entered into between the Company and TCL Electrical Appliance Sales Co., Ltd. ("Sales Co.") (a company which is owned as to 49% by TCL Corporation) and revised on 11 December 2002, the services fees and/or commissions paid by the Group to Sales Co. amounted to HK\$435,226,000 during the year.
- (g) The Group used subcontracting services provided by a subsidiary of TCL Corporation, for which subcontracting fees amounting to HK\$16,926,000 were paid during the year.
- (h) TTE entered into the Thomson Styling Services Agreement dated 30 July 2004 with Thomson under which TTE will subcontract selected styling services (including industrial and other designs of TV products) to Thomson as an exclusive styling service provider in respect of all TV products of TTE and its subsidiaries bearing or marketed under the "Thomson" or "RCA" trademarks. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

The service fees payable are based on annual service fee budget mutually determined by the parties based on the estimated actual costs of Thomson in providing the styling services, which costs shall not exceed the service fees charged by competing styling providers for comparable styling services.

During the year, HK\$18,980,000 has been paid by the Group to Thomson for the styling services.

- (i) TTE entered into the Thomson Strategic Sourcing Agreement dated 30 July 2004 with Thomson under which TTE will utilise certain information systems at the ex-Thomson sites until 31 December 2005 to facilitate its sourcing activities. After 31 December 2005, TTE will evaluate whether the use of the foregoing information systems should be continued. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

TTE will pay Thomson an annual fee of approximately HK\$26.79 million for the use of the above-mentioned information systems. During the year, HK\$11,848,000 has been paid by the Group to Thomson for the purpose.

- (j) TTE entered into the Patent License Agreement — Color Television Receivers dated 30 July 2004 with Thomson Licensing SA ("TLISA") (a wholly-owned subsidiary of Thomson) under which TLISA will grant to TTE and its subsidiaries a non-exclusive, non-transferable, non-assignable, indivisible and non-sublicensable license, right and privilege under all of the patents owned, controlled and/or acquired by TLISA during the terms of the agreement to make, lease and sell analog colour television receivers. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

TTE will pay royalties to TLISA, on a quarterly basis, in respect of all units of the colour television receivers with the rate ranges that are consistent with the rates offered by Thomson to other television manufacturers and vary according to the country in which the colour television receivers are manufactured. During the year, HK\$18,670,000 has been paid by the Group to Thomson as royalties.

**CONNECTED TRANSACTIONS (continued)**

- (k) TTE entered into the Receivables Purchase and Sales Agreement dated 30 July 2004 with Thomson under which Thomson has agreed to purchase, on a rolling basis, up to a maximum outstanding amount of Euro100 million of the trade accounts receivable of TTE and its relevant subsidiaries. Such outstanding amount shall, from the first anniversary of 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. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement. At the year end, the aggregate amount of receivable outstanding amounted to HK\$1,033,796,000.
- (l) TTE entered into the Thomson Trademark License Agreement dated 30 July 2004 with Thomson under which Thomson has agreed to grant to TTE and certain of its subsidiaries for 20-year term non-sublicensable and non-transferable license to use certain of its registered trademarks including “Thomson”, “RCA”, “Scenium”, “LiFE” and “SABA” for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

No royalties shall be payable by TTE to Thomson prior to the end of the second anniversary of the closing of the Combination Agreement. During the year, no royalty payment has been made, and reimbursement of branding advertising costs amounting to HK\$11,973,000 has been made by the Group to Thomson.

- (m) TTE entered into the North America Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson Inc. (a wholly-owned subsidiary of Thomson) under which TTE has agreed to appoint Thomson Inc. as an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in the USA and Canada, and with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in Mexico. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$202,796,000 has been paid by the Group to Thomson as services fees and costs reimbursement.

- (n) TTE entered into the Europe, Middle East and Africa Sales and Marketing Agency Agreement dated 30 July 2004 with Thomson under which TTE has agreed to appoint Thomson as (i) an exclusive sales and marketing agent to provide a range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE in 29 countries in Europe, (ii) as an exclusive sales and marketing agent to provide product services with respect to the TV end-products of TTE bearing trademarks licensed from Thomson only in 17 other countries in Europe and Africa, and (iii) as a non-exclusive sales and marketing agent to provide product services with respect to TV end-products in other 24 countries as agreed between the parties. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$252,181,000 has been paid by the Group to Thomson as services fees and costs reimbursement.



### CONNECTED TRANSACTIONS (continued)

- (o) TTE entered into the Agreement relating to Thomson Television Angers dated 30 July 2004 with Thomson under which TTE has agreed to engage the production capacity of Angers Factory for part of its requirements over a period of five years (provided that TTE shall incur no loss and realise no profit from this arrangement), which will give Thomson time to reorganise its operation at that plant. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$1,024,748,000 has been paid by the Group to Thomson for the purchases of TV products.

- (p) TTE entered into the Thomson Preferred Supplier Agreement dated 30 July 2004 with Thomson under which TTE has agreed to appoint Thomson as one of the only two preferred suppliers for certain components and shall give priority to Thomson for the supply of the said components. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$1,738,305,000 has been paid by the Group to Thomson for purchase of components.

- (q) TTE entered into the TCL Trademark License Agreement dated 30 July 2004 with TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20-year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sublicensable and non-transferable license to use certain of its registered trademarks including “TCL” and “Rowa” for the manufacture and sale of TV products. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

No royalties shall be payable by TTE to TCL Corporation prior to the second anniversary of the closing date of the Combination Agreement. During the year, no payment has been made by the Group to TCL Corporation as royalties.

- (r) TTE entered into the PRC Sales and Marketing Agency Agreement dated 30 July 2004 with Sales Co. under which TTE has agreed to appoint Sales Co as (i) an exclusive sales and marketing agent to provide a whole range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE sold or designated to be sold in the PRC, and (ii) an exclusive distributor to purchase all TV end-products for resale in the PRC. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$425,939,000 has been paid by the Group to Sales Co. as services fees and costs reimbursement.

- (s) TTE entered into the TCL Preferred Supplier Agreement dated 30 July 2004 with TCL Corporation under which TTE has agreed to appoint TCL Corporation as one of the only two preferred suppliers for certain components and shall give priority to TCL Corporation for the supply of the said components. This agreement is one of the transaction documents entered into pursuant to the Combination Agreement.

During the year, HK\$266,191,000 has been paid by the Group to TCL Corporation for the purchases of components.

### **CONNECTED TRANSACTIONS (continued)**

Save and except the above-mentioned connected transaction and continuing connected transactions, all “Related Party Transactions” as set out in note 41 to the financial statements do not fall under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules. The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

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

Furthermore, the auditors of the Company have confirmed to the board of directors of the Company (the “Board”) that the above-mentioned continuing connected transactions:

- (i) have been approved by the Board;
- (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions;
- (iii) have not exceeded the relevant caps disclosed in the previous announcements (where applicable); and
- (iv) are in accordance with the pricing policies of the Group where the transactions involved the provision of goods or services by the Group.

### **DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES**

On 16 November 2004, the Group entered into a five-year term and revolving loan facilities agreement of US\$180 million with banks. Under the provision of the facilities agreement, it is an event of default if TCL Corporation, the Company’s ultimate holding company, ceases to own beneficially, directly or indirectly, at least 35% or to be the single largest holder (beneficially and directly or indirectly) of the ordinary voting share capital of the Company, or to maintain the Board and management control of the Company. In the event of default, the lending banks may, among others, demand immediate repayment of all or any of the loans made to the Company under the facilities agreement, together with accrued interest. The obligation has been complied with.

### **POST BALANCE SHEET EVENT**

Details of the significant post balance sheet event of the Group are set out in note 42 to the financial statements.

### **CODE OF BEST PRACTICE**

In the opinion of the directors, throughout the accounting period covered by the annual report, the Company complied with the Code of Best Practice as then set out in Appendix 14 of the Listing Rules which was in force during the period.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Board has adopted a new code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, there were not any non-compliance with the standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions during the year ended 31 December 2004.

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **AUDIT COMMITTEE**

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

### **AUDITORS**

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

ON BEHALF OF THE BOARD

**Li Dong Sheng**

*Chairman*

Hong Kong

16 April 2005

