

Report of the Directors

The directors submit their annual report together with the audited accounts of the Company for the year ended 31st December 2005.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 5 to the accounts.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 41.

The directors had declared an interim dividend of US0.72 cent per ordinary share, totalling approximately US\$12,238,000 which was paid on 30th September 2005.

The directors recommend the payment of a final dividend of US2.00 cents per ordinary share, totalling approximately US\$38,244,000 in respect of the year ended 31st December 2005.

The proposed final dividend is payable in cash to shareholders in US dollars save that shareholders whose names appearing on the register of members of the Company in Hong Kong will receive the equivalent amount in HK dollars and shareholders whose names appearing on the record of members of the Company in Singapore will receive the equivalent amount in Singapore dollars, both calculated at the relevant exchange rates quoted by Standard Chartered Bank in Hong Kong at or about 11:00 a.m. on 15th May 2006.

The dividend cheques will be distributed to shareholders on or about Tuesday, 30th May 2006.

Reserves

Movements in the reserves of the Company and of the Group during the year are set out in note 26 to the accounts.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to approximately US\$323,000.

Share capital

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

Share option

Previous Scheme

At the annual general meeting held on 15th May 2003, shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") in place of the Company's share option scheme adopted on 21st September 1999 (the "Previous Scheme") such that no further options should thereafter be offered under the Previous Scheme but the provisions of the Previous Scheme should remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to the date of its termination.

Report of the Directors

Share option (Continued)

Previous Scheme (Continued)

Details of the movements of options during the year ended 31st December 2005 under the Previous Scheme are as follows:

Grantee	Date of grant	Exercise price HK\$	Vesting period	Exercisable period	As at 01/01/2005	Number of options			As at 31/12/2005	
						Granted	Exercised	Lapsed		
Employees	26/02/2001	0.670 (note 1)	26/02/2001	26/02/2002	0	0	0	0	0	
			-25/02/2002	-25/02/2006						
			26/02/2001	26/02/2003	0	0	0	0	0	0
			-25/02/2003	-25/02/2006						
			26/02/2001	26/02/2004	839,000	0	659,000	80,000	100,000	
			-25/02/2004	-25/02/2006						
					839,000	0	659,000	80,000	100,000	
Employees	02/05/2002	3.300 (note 2)	02/05/2002	08/06/2004	2,894,000	0	1,038,000	149,000	1,707,000	
			-07/06/2004	-01/05/2007						
			02/05/2002	08/06/2005	18,812,000	0	15,815,000	278,000	2,719,000	
			-07/06/2005	-01/05/2007						
					21,706,000	0	16,853,000	427,000	4,426,000	
Employees	01/08/2002	2.325 (note 3)	01/08/2002	08/06/2004	7,262,000	0	1,696,000	51,000	5,515,000	
			-07/06/2004	-31/07/2007						
			01/08/2002	08/06/2005	16,133,000	0	8,470,000	145,000	7,518,000	
			-07/06/2005	-31/07/2007						
					23,395,000	0	10,166,000	196,000	13,033,000	

Notes:

- These options are exercisable at HK\$0.67 (US\$0.09) per share in three tranches: the maximum percentage of share options exercisable after the first, second and third anniversary from 26th February 2001 are 20 percent, 50 percent and 100 percent respectively. The exercisable period of these options expired on 25th February 2006.
- These options are exercisable at HK\$3.30 (US\$0.42) per share in two tranches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 1st May 2007 and from 8th June 2005 to 1st May 2007 are 50 percent and 100 percent respectively.
- These options are exercisable at HK\$2.325 (US\$0.30) per share in two tranches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 31st July 2007 and from 8th June 2005 to 31st July 2007 are 50 percent and 100 percent respectively.
- No options were granted to directors of the Company under the Previous Scheme.
- The weighted average market closing price of the shares of the Company immediately before the respective dates on which the options were exercised was HK\$5.47.

Report of the Directors

Share option (Continued)

New Scheme

The purpose of the New Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and/or providing benefits to directors and employees of the Group.

The principal terms of the New Scheme are summarized below:

- (1) Participants of the New Scheme
Any employee or director including executive and non-executive directors of the Company, any of its holding companies and any of their respective subsidiaries and any entity in which the Company or any of its subsidiaries holds any equity interest.
- (2) Maximum number of shares
The remaining number of shares available for issue under the New Scheme is 22,484,026, representing approximately 1.2 percent of the issued share capital of the Company as at the date of this report.
- (3) Maximum entitlement of each participant
The board shall not grant any option (the "Relevant Option") to any participant, which, if exercised, would enable such participant to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including those options exercised, cancelled or outstanding) in the 12-month period up to and including the offer date of the Relevant Options, exceed 1 percent of the shares in issue on such date.

The board may grant options to any participant in excess of the individual limit of 1 percent in any 12-month period with the approval of the shareholders in general meeting (with such participant and his associates abstaining from voting). In such situation, the Company will send a circular to the shareholders and the circular must disclose the identity of the participant, the number and terms of the options to be granted (and previously granted to such participant).
- (4) Payment on acceptance of options
A participant shall pay the Company HK\$1.00 for the grant of an option on acceptance of an option within 28 days after the offer date.
- (5) Time of exercise of options
Subject to the provisions of the New Scheme, an option may be exercised at any time during such period notified by the board as not exceeding 10 years from the offer date. The exercise of options may also be subject to any conditions imposed by the board at the time of offer.
- (6) Basis of determining the subscription price
The subscription price will be determined by the board and it shall not be less than the highest of, (i) the closing price of the shares of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Exchange") on the date of offer of the options; and (ii) the average closing price of the shares of the Company as stated in the Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.
- (7) Remaining life of the New Scheme
The New Scheme is valid until 14th May 2013.

Report of the Directors

Share option (Continued)

New Scheme (Continued)

Details of the movements of options during the year ended 31st December 2005 under the New Scheme are as follows:

Grantee	Date of grant	Exercise price HK\$	Vesting period	Exercisable period	As at 01/01/2005	Number of options			As at 31/12/2005
						Granted	Exercised	Lapsed	
Mr Hounq Yu-Te	03/11/2003	4.140 (note 1)	03/11/2003	08/06/2004	560,000	0	0	0	560,000
			-07/06/2004	-02/11/2008					
			03/11/2003	08/06/2005	840,000	0	0	0	840,000
			-07/06/2005	-02/11/2008					
			03/11/2003	08/06/2006	1,400,000	0	0	0	1,400,000
			-07/06/2006	-02/11/2008					
Employees	03/11/2003	4.140 (note 1)	03/11/2003	08/06/2004	5,404,000	0	2,264,000	0	3,140,000
			-07/06/2004	-02/11/2008					
			03/11/2003	08/06/2005	9,846,000	0	4,026,000	0	5,820,000
			-07/06/2005	-02/11/2008					
			03/11/2003	08/06/2006	16,410,000	0	0	0	16,410,000
			-07/06/2006	-02/11/2008					
					34,460,000	0	6,290,000	0	28,170,000
Dr Hsuan, Jason	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	600,000	0	600,000	0	0
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	900,000	0	0	0	900,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	1,500,000	0	0	0	1,500,000
			-07/06/2007	-19/05/2009					
Mr Hounq Yu-Te	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	600,000	0	0	0	600,000
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	900,000	0	0	0	900,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	1,500,000	0	0	0	1,500,000
			-07/06/2007	-19/05/2009					

Report of the Directors

Share option (Continued)

New Scheme (Continued)

Grantee	Date of grant	Exercise price HK\$	Vesting period	Exercisable period	As at 01/01/2005	Number of options			As at 31/12/2005
						Granted	Exercised	Lapsed	
Mr Wang Dongsheng	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	400,000	0	0	0	400,000
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	600,000	0	0	0	600,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	1,000,000	0	0	0	1,000,000
			-07/06/2007	-19/05/2009					
Mr Chen Yanshun	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	200,000	0	0	0	200,000
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	300,000	0	0	0	300,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	500,000	0	0	0	500,000
			-07/06/2007	-19/05/2009					
Mr Wang Yanjun	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	200,000	0	0	0	200,000
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	300,000	0	0	0	300,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	500,000	0	0	0	500,000
			-07/06/2007	-19/05/2009					
Employees	20/05/2004	4.735 (note 2)	20/05/2004	08/06/2005	20,990,000	0	5,788,000	398,000	14,804,000
			-07/06/2005	-19/05/2009					
			20/05/2004	08/06/2006	31,485,000	0	0	897,000	30,588,000
			-07/06/2006	-19/05/2009					
			20/05/2004	08/06/2007	52,475,000	0	0	1,495,000	50,980,000
			-07/06/2007	-19/05/2009					
					114,950,000	0	6,388,000	2,790,000	105,772,000

Report of the Directors

Share option (Continued)

New Scheme (Continued)

Notes:

1. These options are exercisable at HK\$4.14 (US\$0.53) per share in three tranches: the maximum percentage of share options exercisable within the periods commencing from 8th June 2004 to 2nd November 2008, from 8th June 2005 to 2nd November 2008 and from 8th June 2006 to 2nd November 2008 are 20 percent, 50 percent and 100 percent respectively.
2. These options are exercisable at HK\$4.735 (US\$0.61) per share in three tranches: the maximum percentage of share options exercisable within the period commencing from 8th June 2005 to 19th May 2009, from 8th June 2006 to 19th May 2009 and from 8th June 2007 to 19th May 2009 are 20 percent, 50 percent and 100 percent respectively.
3. The weighted average market closing price of the shares of the Company immediately before the respective dates on which the options were exercised was HK\$6.02.

Distributable reserves

Distributable reserves of the Company as at 31st December 2005, including contributed surplus, amounted to approximately US\$132,208,000.

Five-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 102.

Purchase, sale and redemption of shares

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

Pre-emptive rights

No pre-emptive rights exist under the laws of Bermuda in relation to the issue of new shares by the Company.

Directors

The directors of the Company during the year were:

Executive Directors

Dr Hsuan, Jason
Mr Houng Yu-Te

Non-executive Directors

Mr Wang Dongsheng
Mr Chen Yanshun
Mr Wang Yanjun
Mr Maarten Jan de Vries (appointed on 6th October 2005)
Mr Chang Yueh, David (appointed on 22nd December 2005)
Mr Djuhar, Johny (retired on 11th May 2005)
Mr Martin Vincent McHugh (appointed on 6th October 2005 and resigned on 22nd December 2005)

Independent Non-executive Directors

Mr Chan Boon-Teong
Dr Ku Chia-Tai
Mr Wong Chi Keung

Report of the Directors

Directors (Continued)

Notes:

- (1) In accordance with Bye-law 99 of the Company's Bye-laws, Dr Hsuan, Jason, Mr Chen Yanshun and Mr Chan Boon-Teong will retire by rotation and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.
- (2) In accordance with Bye-law 102(B) of the Company's Bye-laws, Mr Maarten Jan de Vries and Mr Chang Yueh, David will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.
- (3) None of the non-executive directors was appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.
- (4) The Company has received confirmation of independence from independent non-executive directors, namely Mr Chan Boon-Teong, Dr Ku Chia-Tai and Mr Wong Chi Keung, and considers them to be independent.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without the payment of compensation, other than the statutory compensation.

Biographical details of directors and senior management

Executive Directors

Dr Hsuan, Jason

Aged 62, the Chairman and Chief Executive Officer of the Group, joined the Group in November 1990. Dr Hsuan is responsible for the Group's overall corporate policies and business development. Before joining the Group, he had over 19 years of managerial experience in well-known multi-national enterprises which include General Electric and PepsiCo. Dr Hsuan graduated from Department of Electrical Engineering of National Cheng Kung University, Taiwan in 1968, and holds a doctorate degree of philosophy in systems engineering from the Polytechnic Institute of Brooklyn and a master's degree in systems engineering from Boston University.

Mr Hsiung Yu-Te

Aged 59, Senior Vice President and Chief Financial Officer, is responsible for the Group's general administration and financial operations. Mr Hsiung holds a bachelor's degree in accounting from Soochow University, Taiwan. Before joining the Group in December 1996, he gained audit and finance experience from an international accounting firm in Taiwan and had worked for a number of companies for over 28 years in charge of the accounting and financial operations.

Non-executive Directors

Mr Wang Dongsheng

Aged 48, is the founder of BOE Technology Group Co., Ltd., a substantial shareholder of the Company whose A shares and B shares are listed on the Shenzhen Stock Exchange. He is currently the chairman of the board of directors, president of executive board and CEO of BOE Technology Group Co., Ltd.. He holds a master's degree in engineering and is a senior accountant in the People's Republic of China. Mr Wang has extensive experience in financing and system engineering. He is also the Vice Chairman of China Electronic Chamber of Commerce.

Mr Chen Yanshun

Aged 41, is a director of BOE Technology Group Co., Ltd., a substantial shareholder of the Company whose A shares and B shares are listed on the Shenzhen Stock Exchange. Mr Chen holds a master's degree in economics and is a senior accountant in the People's Republic of China. He specializes in corporate strategic planning and administration and has extensive experience in corporate restructuring and financing, securities-related matters and mergers and acquisitions.

Report of the Directors

Biographical details of directors and senior management (Continued)

Non-executive Directors (Continued)

Mr Wang Yanjun

Aged 36, is the Chief Financial Supervisor of BOE Technology Group Co., Ltd., a substantial shareholder of the Company whose A shares and B shares are listed on the Shenzhen Stock Exchange. He holds a bachelor's degree in finance engineering and is an accountant by profession. Mr Wang has over 14 years of experience in accounting and corporate finance.

Mr Maarten Jan de Vries

Aged 44, holds a master's degree in business economics from the University of Groningen and obtained post-graduate education for controllership from the Vrije University of Amsterdam. He is a registered member of the Dutch Controllers Institute. Mr de Vries is currently an executive vice president and chief financial officer of product division of Philips Consumer Electronics (a subsidiary of Koninklijke Philips Electronics N.V. which is a substantial shareholder of the Company). Mr de Vries has over 20 years of experience in finance, accounting and management.

Mr Chang Yueh, David

Aged 57, holds a bachelor's degree in electronic engineering from the National Chiao-Tung University in Taiwan. Mr Chang is currently the CEO of Philips (China) Investment Co., Ltd. (a subsidiary of Koninklijke Philips Electronics N.V. which is a substantial shareholder of the Company). Mr Chang has over 27 years of experience in sales management, business management and general management.

Independent Non-executive Directors

Mr Chan Boon-Teong

Aged 63, graduated from Imperial College of the University of London with a bachelor's degree in electrical engineering. Mr Chan also holds both a master's degree in electrical engineering and operational research from the Polytechnic University of New York City. He has over 35 years of experience in the financial, commercial, industrial and real estate business in the Southeast Asia region. He was a director of the former Kowloon Stock Exchange in 1973. He is currently the Chairman of Coastal Greenland Limited, a listed company in Hong Kong, and also a director of Cathay United Bank Co. Ltd., a listed company in Taiwan. Mr Chan is a member of the National Chinese People's Political Consultative Conference. He is also a member of the Standing Committee of the All-China Federation of Returned Overseas Chinese. Mr Chan was appointed as an independent non-executive director of the Company in May 1998.

Dr Ku Chia-Tai

Aged 63, holds a bachelor's degree in electrical engineering from National Cheng Kung University, Taiwan, a master's degree in electrical engineering from Rutgers University of New Jersey and a doctorate degree in electrical engineering from the University of Pittsburgh, Pennsylvania. Dr Ku has over 30 years of managerial experience in both computer and telecommunications industries. He was General Manager of Wang Computer (Taiwan) Limited, President of GTE Taiwan, President of Siemens Telecom Systems Limited and President of Beijing Switching International Co.. Dr Ku was appointed as an independent non-executive director of the Company in May 1998.

Mr Wong Chi Keung

Aged 51, holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia, an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr Wong was an executive director, deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited for over 10 years. He is currently the managing director of Greater China Corporate Consultancy & Services Limited. He is also an independent non-executive director and a member of the audit committee of a number of listed companies in Hong Kong. Mr Wong has over 29 years of experience in finance, accounting and management. Mr Wong was appointed as an independent non-executive director of the Company in August 2004.

Report of the Directors

Biographical details of directors and senior management (Continued)

Senior Management

Mr Hsieh Chi Tsung
Aged 54, Senior Vice President, is in charge of the ODM sales and procurement of raw materials. Mr Hsieh holds a bachelor's degree in mechanical engineering from Fong-Ja University, Taiwan and an executive master's degree in business administration from National Taipei University. Prior to joining the Group in 1994, he worked for a number of well-known monitor manufacturers in Taiwan as purchasing supervisor for over 23 years.

Mr Lu Being-Chang
Aged 59, Senior Vice President, is in charge of new product planning, research and development, and ODM sales of consumer electronic products. Mr Lu graduated from National Cheng Kung University, Taiwan with a bachelor's degree in science and a master's degree in electrical engineering. Prior to joining the Group in November 1999, he worked for the Sampo Group in Taiwan for over 25 years and was in charge of manufacturing, international sales and research and development.

Mr Liao Jen Tsung
Aged 48, Senior Vice President, is in charge of the Group's manufacturing operations. Mr Liao holds a bachelor's degree in Industrial Engineering from Tunghai University, Taiwan. Prior to joining the Group in March 2001, Mr Liao had 25 years of experience in manufacturing operations.

Directors' interests in contracts

There was no contract of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests

As at 31st December 2005, the interests of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests and short positions in which they were taken or deemed to have under such provisions of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Exchange (the "Listing Rules") were as follows:

Interests in ordinary shares of US\$0.01 each of the Company

Name of director	Name of company	Type of interest	Number of shares held (long position)
Dr Hsuan, Jason	The Company	Corporate and Family (note 1)	29,855,823
Mr Hsiung Yu-Te	The Company	Personal	3,141,537

Notes:

- (1) The interest of Dr Hsuan, Jason disclosed herein includes the holding of 27,854,803 shares by Bonstar International Limited, a company beneficially and wholly owned by Dr Hsuan, Jason; and the holding of 2,001,020 shares by the spouse of Dr Hsuan, Jason.
- (2) Details of the interests of directors in share options of the Company are detailed in the paragraph headed "Share Option" above.

Report of the Directors

Directors' interests (Continued)

Interests in ordinary shares of US\$0.01 each of the Company (Continued)

Save as disclosed above, as at 31st December 2005, none of the directors of the Company had or was deemed to have any interest or short position in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company pursuant to the Model Code.

Furthermore, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company or any of their spouses or children under 18 years of age to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporations. As at 31st December 2005, the Company had no ultimate holding company.

Substantial shareholders' interests

As at 31st December 2005, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Interest in ordinary shares of US\$0.01 each and the convertible bond of the Company

Name of shareholder	Number of shares held (long position)	Maximum number of shares that may be converted under the convertible bond (long position)
BOE Technology Group Co., Ltd. (京東方科技集團股份有限公司)	424,360,191	Nil
Philips Electronics Hong Kong Limited	263,176,463 (note 1)	341,787,615 (note 1)
Koninklijke Philips Electronics N.V.	263,176,463 (note 1)	341,787,615 (note 1)
Philips Electronics China B.V.	263,176,463 (note 1)	341,787,615 (note 1)
Brilliant Way Investment Limited	99,909,000 (note 2)	Nil
Pacific Industries and Development Limited	99,909,000 (note 2)	Nil
Mr Djuhar, Sutanto	99,909,000 (note 2)	Nil
Mr Djuhar, Johny	99,909,000 (note 2)	Nil
Mr Djuhar, Tedy	99,909,000 (note 2)	Nil
KMP Atlantic Limited	99,909,000 (note 2)	Nil
Mr Salim, Anthoni	99,909,000 (note 2)	Nil

Notes:

- (1) Upon completion of the acquisition of the Philips Contributed Business (details of which are contained in the Company's circular dated 30th June 2005) on 5th September 2005, the Company issued and allotted 263,176,463 shares and a convertible bond to Philips Electronics Hong Kong Limited ("PEHKL") on 5th September 2005.

The said 263,176,463 shares are held by PEHKL. PEHKL is owned as to 42 percent by Koninklijke Philips Electronics N.V. ("Philips") and as to 58 percent by Philips Electronics China B.V. ("PEC"). PEC is a wholly-owned subsidiary of Philips.

Pursuant to the terms of the said convertible bond, PEHKL may exercise the conversion rights attaching thereto and the Company may issue a maximum of 341,787,615 shares to PEHKL upon conversion of the convertible bond by PEHKL.

- (2) These shares are held by Brilliant Way Investment Limited, a wholly-owned subsidiary of Pacific Industries and Development Limited ("PIDL"). PIDL is a company owned as to 50 percent by KMP Atlantic Limited ("KMP"), as to 25 percent by Mr Djuhar, Sutanto, as to 12.5 percent by Mr Djuhar, Johny and as to the remaining 12.5 percent by Mr Djuhar, Tedy. KMP is owned as to 90 percent by Mr Salim, Anthoni and as to the remaining 10 percent by other parties.

Report of the Directors

Management contracts No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

Purchases

– the largest supplier	11.4%
– five largest suppliers combined	46.3%

Sales

– the largest customer	19.1%
– five largest customers combined	64.1%

None of the directors, their associates or any shareholder which to the knowledge of the directors owns more than 5 percent of the Company's issued share capital had an interest in the major suppliers or customers noted above.

Connected transactions Details of connected transactions as required to be disclosed in accordance with Chapter 14A of the Listing Rules are as follows:

(1) (a) BOE Technology Group Co., Ltd. ("BOE") has become a substantial shareholder of the Company since 20th November 2003. Accordingly, the ongoing transactions between the Group and the BOE Group (namely the Guarantee, the Purchase Transactions, the Sale Transactions, the Technical Support Service Transactions and the Warranty Cost Recovery Transactions, details of which are contained in the Company's circular dated 6th January 2004 (the "2004 Circular")) constitute continuing connected transactions under the Listing Rules, to which the Exchange has granted a conditional waiver to the Company from strict compliance with requirements of further disclosure by way of press announcement and independent shareholders' approval for the aforesaid continuing connected transactions for the three financial years ended 31st December 2005. The transaction amounts in respect of each of these continuing connected transactions for the year ended 31st December 2005 are as follows:

	Transaction amounts of the continuing connected transactions	Comparison with the respective Cap Amounts (as defined in the 2004 Circular)	Cap Amounts
(i) Guarantee given by a wholly-owned subsidiary of the Group in respect of banking facilities granted to TPV Technology (Beijing) Co., Ltd. ("TPV Beijing", formerly known as Beijing Orient Top Victory Electronics Co., Ltd.) (note 1) (the "Guarantee")	US\$13,060,000	US\$13,060,000	US\$16,000,000
(ii) Purchase of TFT-LCD panels, monitors, parts and components and LCD TVs/PDP TVs by the Group from the BOE Group (the "Purchase Transactions")	US\$257,501,000	6.5% of the Group's related turnover for the year ended 31st December 2005	17% of the Group's related turnover for the year ended 31st December 2005

Report of the Directors

Connected transactions (Continued)

	Transaction amounts of the continuing connected transactions	Comparison with the respective Cap Amounts (as defined in the 2004 Circular)	Cap Amounts
(iii) Sale of parts and components, machinery and moulds by the Group to the BOE Group (the "Sale Transactions")	US\$40,405,000	0.8% of the Group's total turnover for the year ended 31st December 2005	1% of the Group's total turnover for the year ended 31st December 2005
(iv) Technical support service fee received by the Group from TPV Beijing (the "Technical Support Service Transactions")	US\$3,595,000	0.4% of the net asset value as at 31st December 2005	3% of the net asset value as at 31st December 2005
(v) Warranty cost recovery in respect of after-sale services rendered by the Group to the customers of TPV Beijing (the "Warranty Cost Recovery Transactions")	US\$2,895,000	0.3% of the net asset value as at 31st December 2005	3% of the net asset value as at 31st December 2005

Notes:

1. TPV Beijing is a company incorporated in the People's Republic of China as a joint-stock limited company with foreign investment. Prior to it becoming a wholly-owned subsidiary of the Group on 1st December 2005 (details of which are contained in the Company's circular dated 30th June 2005 (the "2005 Circular")), the Group and the BOE Group had a 41.74 percent and 45.21 percent interest in TPV Beijing respectively.
2. The Guarantee ceased to be a connected transaction to the Company on 20th June 2005 upon the expiry of the underlying banking facilities associated with the Guarantee on 19th June 2005.
3. As aforesaid, the Sale Transactions, the Technical Support Service Transactions and the Warranty Cost Recovery Transactions ceased to be connected transactions under the Listing Rules on 1st December 2005.

These continuing connected transactions have been reviewed by the board of directors, including the independent non-executive directors, who are of the opinion that the transactions were conducted in accordance with the terms of the respective agreements governing the continuing connected transactions or on terms no less favourable than those available to or from independent third parties and the aggregate amount of each class of the continuing connected transactions for the financial year ended 31st December 2005 had not exceeded their respective Cap Amounts as set out in the 2004 Circular.

The board of directors of the Company have engaged the auditors to perform certain agreed-upon procedures on the aforesaid continuing connected transactions on a sample basis and the auditors have, based on the work performed, provided a letter to the board of directors of the Company stating that the continuing connected transactions:

- (i) have been approved by the board of directors of the Company;
- (ii) were in accordance with the Group's pricing policies regarding the transactions as stated in (ii) to (v) above;
- (iii) were entered into in accordance with the respective agreements governing the transactions; and
- (iv) did not exceed the Cap Amounts as set out above.

Report of the Directors

Connected transactions (Continued)

- (1) (b) TPV Beijing became a wholly-owned subsidiary of the Group on 1st December 2005 and accordingly, the Sale Transactions, the Technical Support Service Transactions and the Warranty Cost Recovery Transactions as referred to in item (1)(a) above ceased to be connected transactions under the Listing Rules on 1st December 2005. Yet, the Group (including TPV Beijing) continues to purchase from time to time TFT-LCD panels from the BOE Group (the "Purchase Transactions") in its ordinary and usual course of business. Accordingly, the Purchase Transactions constitute continuing connected transactions to the Company under Chapter 14A of the Listing Rules. Details of the Purchase Transactions are contained in the Company's circular dated 13th February 2006 (the "2006 Circular").

At the special general meeting of shareholders held on 28th February 2006, the independent shareholders approved the entering into the Purchase Transactions and the respective Annual Caps (as defined in the 2006 Circular).

The Company will comply with the rules in relation to the annual review of the Purchase Transactions as set out in Rule 14A.37 to 14A.40 of the Listing Rules and will re-comply with the relevant Listing Rules if the Annual Cap is exceeded or when the relevant agreement is renewed or there is a material change to the terms of the Purchase Transactions.

- (2) Upon the completion of the acquisition of the Philips Contributed Business (details of which are contained in the aforesaid 2005 Circular) by the Group from Koninklijke Philips Electronics N.V. ("Philips") on 5th September 2005, Philips has become a substantial shareholder of the Company on the even date. Accordingly, the following transactions between the Group and Philips and its subsidiaries (the "Philips Group") constitute continuing connected transactions under Chapter 14A of the Listing Rules:
- (a) partially exempt continuing connected transactions which comprise the transactions contemplated under the IT Service Level Agreements and the Assembly Subcontracting Agreement in Suzhou (details of which are contained in the 2005 Circular); and
- (b) non-exempt continuing connected transactions which comprise the transactions contemplated under the Supply Agreement, the Component Sourcing Agreement and the Manufacturing and Sales Agreement in Brazil (details of which are contained in the 2005 Circular).

At the special general meeting of shareholders held on 2nd August 2005, the independent shareholders approved the aforesaid non-exempt continuing connected transactions and their respective annual caps. The transaction amounts in respect of each of these continuing connected transactions for the year ended 31st December 2005 are as follows:

	Transaction amounts of the continuing connected transactions	Annual Caps
(i) the provision of IT services by the Philips Group to the Group in China and Taiwan in order to facilitate the integration of the Philips Contributed Business with the operations of the Group under the IT Service Level Agreements	€1,137,000	€1,217,500
(ii) the provision of certain assembly lines and manufacturing facilities in relation to CRT TVs in Suzhou to the Philips Group by the Group under the Assembly Subcontracting Agreement in Suzhou (note 1)	Nil	RMB34,500,000

Report of the Directors

Connected transactions (Continued)

	Transaction amounts of the continuing connected transactions	Annual Caps
(iii) the sale to the Philips Group by the Group for the supply and delivery of products (as defined in the 2005 Circular) under the Supply Agreement	US\$539,207,000	US\$555,750,000
(iv) the purchase of Components (as defined in the 2005 Circular) by the Group from the Philips Group under the Component Sourcing Agreement	US\$276,572,000	US\$279,278,000
(v) the commission paid to the Philips Group in respect of the sale of CRT monitors by the Group to the customers of the Philips Group under the Manufacturing and Sales Agreement	US\$307,623	US\$309,675

Note:

1. The transactions as contemplated under the Assembly Subcontracting Agreement in Suzhou have not been carried out as agreed by the transacting parties.

These continuing connected transactions have been reviewed by the board of directors, including the independent non-executive directors, who are of the opinion that the transactions were conducted in accordance with the terms of the respective agreements governing the continuing connected transactions or on terms no less favourable than those available to or from independent third parties and the aggregate amount of each class of the continuing connected transactions for the financial year ended 31st December 2005 has not exceeded their respective Annual Caps as set out in the 2005 Circular.

The board of directors of the Company have engaged the auditors to perform certain agreed-upon procedures on the aforesaid continuing connected transactions on a sample basis and the auditors have, based on the work performed, provided a letter to the board of directors of the Company stating that the continuing connected transactions:

- (i) have been approved by the board of directors of the Company;
- (ii) were in accordance with the Group's pricing policies regarding the transactions as stated in (i), (iii), (iv) and (v) above;
- (iii) were entered into in accordance with the respective agreements governing the transactions; and
- (iv) did not exceed the Annual Caps as set out above.

Report of the Directors

Disclosure pursuant to Rule 13.13 of the Listing Rules

As at 31st December 2005, the Company and its subsidiaries (the "Group") had trade receivables (the "Trade Receivables") due from the following entities which individually exceeds 8% of the market capitalization and/or the total assets:

Name of entities	Amount of Trade Receivables	Market capitalization	Total assets
	US\$'000		
Hewlett-Packard ("HP")	141,425	8.00%	4.63%
Philips Consumer Electronics International B.V. ("Philips")	407,070	23.00%	13.33%
Lenovo Group Limited ("Lenovo")	162,202	9.17%	5.31%
	<u>710,697</u>		

Notes:

- (1) The Trade Receivables in respect of each of HP and Lenovo are for sales of computer monitors under ODM contracts, which are unsecured, interest-free and have a normal payment term of not exceeding 90 days.
- (2) The Trade Receivables in respect of Philips are for sales of computer monitors and flat TVs under an ODM contract, which are unsecured, interest-free and have a normal payment term of not exceeding 90 days.
- (3) Save for Philips which is a substantial shareholder of the Company, HP and Lenovo are independent third parties not connected to the directors, chief executives or substantial shareholders of the Group or their respective associates.

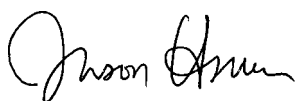
Public float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

Auditors

The accounts were audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board



Dr Hsuan, Jason
Chairman and Chief Executive Officer

Hong Kong, 3rd April 2006