

# REPORT OF THE DIRECTORS

The directors of TCL Communication Technology Holdings Limited (the "Company") are pleased to present the audited financial statements of the Company and the Group for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries comprise research, development, manufacturing and sale of mobile phones. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 111.

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

## SUMMARY FINANCIAL INFORMATION

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 the Prospectus and reclassified as appropriate, is set out on page 112. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant & equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year was disclosed in note 33, 34 and 29 to the financial statements respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of 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

None of the Company or its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$109,132,000. Among the total, the Company's share premium account, in the amount of HK\$1,140,835,000, may be distributed, provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

## REPORT OF THE DIRECTORS

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 26% of the total sales for the year and sales to the largest customer included therein amounted to 8%. Purchases from the Group's five largest suppliers accounted for 52% of the total purchases for the year and purchase from the largest supplier included therein amounted to 25%.

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, except that disclosed in note 40a to the financial statements.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors:

Mr. LI Dong Sheng

Mr. YUAN Xin Cheng

Dr. LIU Fei (appointed on 22 June 2005)

Dr. WAN Mingjian (retired on 22 June 2005)

Mr. YAN Yong, Vincent

Mr. DU Xiaopeng, Simon

Dr. GUO Aiping, George

Mr. WONG Toe Yeung, Chambers

#### Independent non-executive directors:

Mr. SHI Cuiming

Mr. WANG Chongju

Mr. LAU Siu Ki, Kevin

In accordance with article 87(1) of the Company's Articles of Association, Mr. Li Dong Sheng, Mr. Wong Toe Yeung, Chambers, Dr. Guo Aiping, George and Mr. Du Xiaopeng, Simon will retire by rotation at the conclusion of the forthcoming annual general meeting of the Company ("AGM"). Mr. Li being eligible, will offer himself but Mr. Wong, Dr. Guo and Dr. Du will not offer themselves for re-election at the AGM. Dr. Liu Fei who was appointed by the Board as an executive director on 22 June 2005 will also be subject to election by the shareholders at the AGM. Mr. Shi Cuiming, Mr. Wang Chongju and Mr. Lau Siu Ki, Kevin will hold office until the conclusion of the AGM and being eligible, will offer themselves for re-election.

Each of the independent non-executive directors has confirmed his independence to the Company pursuant to Rule 3.13 of the Listing Rules and the Company considers 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 24 to 27 of the annual report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has a service contract with the Company for a term of three years commencing from 1 September 2004, except for Mr. Yuan who has not entered into any service contract with the Company and Dr. Liu, who has a term of service contract of three years started from 22 June 2005.

Save as disclosed above, no directors proposed for re-election at the forthcoming AGM 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.

## EMOLUMENTS OF DIRECTORS AND THE 5 HIGHEST-PAID INDIVIDUALS

Particulars of the emoluments of the directors and the 5 highest-paid individuals during the financial year are set out in note 12 to the financial statements.

## EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 28 to 46 of this annual report of the Group's emoluments policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

## PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 6 to the financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 40 to the financial statements under the heading "Related Party Transactions", there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisting at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

Save as disclosed under the heading "Related Party Transactions", no other contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

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

At 31 December 2005, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company:

Name of director	Type of interest	Number of shares of the the Company held	Percentage of Company's issued share capital
Mr. WONG Toe Yeung, Chambers	Interest of controlled corporation	288,317,500 (Note 1)	9.71%
Mr. LI Dong Sheng	Beneficial owner	36,614,400	1.23%
Mr. DU Xiaopeng, Simon	Interest of controlled corporation	8,064,030 (Note 2)	0.27%
Dr. LIU Fei	Beneficial owner	40,000	0.001%
Dr. GUO Aiping, George	Beneficial owner	26,400	0.001%

Note:

- Mr. WONG Toe Yeung, Chambers was deemed to be interested in the 288,317,500 shares of the Company held by Mate Fair Group Limited, a company which is wholly owned by him.
- Mr. DU Xiaopeng, Simon was deemed to be interested in the 8,064,030 shares of the Company held by Union Grand International Limited, a company which is wholly owned by him.

The interests of the directors in the share options of the Company are separately disclosed under the heading of "Share option scheme".

## REPORT OF THE DIRECTORS

### EMOLUMENTS OF DIRECTORS AND THE 5 HIGHEST-PAID INDIVIDUALS

Long positions in shares of associated corporations of the Company:

Name of director	Name of associated corporation (Notes)	Type of interest	Numbers of shares held	Percentage of the relevant associated corporation's issued share capital
Mr. LI Dong Sheng	TCL Corp	Beneficial owner	144,521,730	5.59%
Mr. LI Dong Sheng	TCL Multimedia	Beneficial owner	17,232,000	0.44%
Mr. YUAN Xin Cheng	TCL Corp	Beneficial owner	24,791,527	0.96%

Notes:

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

Options outstanding to subscribe for shares of associated corporations of the Company:

Name of director	Name of associated corporation	Type of interest	Numbers of shares involved	Percentage of the relevant associated corporation's issued share capital
Mr. LI Dong Sheng	TCL Multimedia	Beneficial owner	5,000,000	0.13%
Mr. YAN Yong, Vincent	TCL Multimedia	Beneficial owner	3,518,000	0.09%
Mr. WONG Toe Yeung, Chambers	TCL Multimedia	Beneficial owner	3,000,000	0.08%
Mr. YUAN Xin Cheng	TCL Multimedia	Beneficial owner	3,000,000	0.08%
Mr. DU Xiaopeng, Simon	TCL Multimedia	Beneficial owner	400,000	0.01%
Dr. LIU Fei	TCL Multimedia	Beneficial owner	400,000	0.01%
Dr. GUO Aiping, George	TCL Multimedia	Beneficial owner	318,000	0.01%

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above and in the share option scheme disclosures in note 34 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any director of the Company, his spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares or underlying shares in or debentures of the Company or its associated corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the following persons (other than a director or chief executive of the Company) in shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in shares of the Company:

Name	Type of interest	Number of shares held	Percentage of the Company's issued share capital
TCL Corp	Interest of controlled corporation	1,622,748,480 (Note (a))	54.66%
Choi Koon Shum Jonathan	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Innovation Assets Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Kingsway Financial Services Group Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Kingsway International Holdings Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Kwan Wing Kum, Janice	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Lam William Ka Chung	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Lam Wong Yuk Sin Mary	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
SW Kingsway Capital Group Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
SW Kingsway Capital Holdings Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
World Developments Limited	Interest of controlled corporation	1,057,809,020 (Note (b))	17.81% (Note (c))
Mate Fair Group Limited	Beneficial owner	288,317,500	9.71%

Notes:

- TCL Corp was deemed to be interested in the 1,622,748,480 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly owned subsidiary of TCL Corp.
- These interests refer to the same underwritten shares which Kingsway Financial Services Group Limited agreed to underwrite under the Underwriting Agreement entered into between it and the Company dated 22 December 2005 in relation to the open offer of the Company. On 27 February 2006, the date of completion of the open offer, the holders of these interests ceased to have a notifiable interest in the Company.
- These percentages are based on the issued share capital of the Company as enlarged by the issue of the 2,968,875,000 Shares allotted on 6 February 2006 under the open offer of the Company.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2005, no persons, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had notified the Company of an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### SHARE OPTION SCHEME

The following share options were outstanding under the share option schemes of the Company during the period:

Name or category of participant	At January 2005	Number of share options		At 31 December 2005
		Grant during the year (Note)	Lapsed during the year	
<b>Directors</b>				
Mr. LI Dong Sheng	–	5,000,000		5,000,000
Mr. WONG Toe Yeung, Chambers	–	5,000,000		5,000,000
Mr. YUAN Xin Cheng	–	3,000,000		3,000,000
Mr. DU Xiaopeng, Simon	–	3,200,000		3,200,000
Dr. LIU Fei	–	1,600,000		1,600,000
Mr. YAN Yong, Vincent	–	1,050,000		1,050,000
Dr. GUO Aiping, George	–	950,000		950,000
Mr. SHI Cuiming	–	300,000		300,000
Mr. WANG Chongju	–	300,000		300,000
Mr. LAU Siu Ki, Kevin	–	300,000		300,000
	–	20,700,000		20,700,000
Employees	–	109,750,000	(8,125,000)	101,625,000
Those who have contributed or may contribute to the group		46,770,000		46,770,000
	–	177,220,000	(8,125,000)	169,095,000

*Note:*

Such share options were granted on 31 May 2005 at an exercise price of HK\$0.415 per share. Share price of the Company at grant date is HK\$0.41 per share, which is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. As disclosed in the Company's announcement dated 28 February 2006, as a result of the open offer of the Company, the aforesaid share options outstanding as at 27 February 2006, the date of completion of the open offer, have been adjusted (with calculation confirmed by Ernst & Young, the auditors of the Company) in term of their exercise price (from HK\$0.415 to HK\$0.3804 per share) and the number of shares of the Company to be issued upon exercise of them (from 120,570,000 to 131,531,019).

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 fair value of the options granted in the current period totalled approximately HK\$16,938,000, after adjusting the fair value of any shares options being lapsed as a result of any grantees left the Company during the period between 1 June 2005 to 31 December 2005 and the fair value of any shares options being granted to parties other than the Directors and employees of the Company and the Group. The following assumptions were used to derive the fair value, using the Binomial Model:

- an expected volatility of 50% based on the movement of share prices during the period from August 2002 to July 2005 of 5 comparators whose major business is manufacturing and sale of mobile phones, which is similar to that the Company;
- an expected dividend yield of 1% per annum;
- an estimated average life of the options granted during the year is 2.88 years;

- d. the average risk-free interest rate of 3.13% per annum, is taken to be linearly interpolated yields using Hong Kong Exchange Fund Notes as at the grant date;
- e. an early exercise assumption that option holders will exercise when the share is at least 200% of the exercise price; and
- f. an estimated rate of leaving service of 20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter.

Watson Wyatt Hong Kong Limited is appointed to perform a valuation of the share option for the period ended 30 June 2005 with a report issued on 5 October 2005.

### CONNECTED TRANSACTIONS

- a) On 15 April 2005, 14 June 2005, 9 September 2005 and 19 October 2005, Huizhou TCL Mobile Communication Co., Ltd. ("TCL Mobile"), a wholly-owned subsidiary of the Company, entered into four lease agreements with Huizhou TCL King Electronics Co., Ltd. ("TCL Electric") in relation to the premises located in the second production land of TCL Electric, Huizhou, the PRC (the "Lease Agreements") to be used as TCL Mobile's production site, cafeteria and dormitories. The term of each of the Lease Agreements is one year. During the year, the total rental paid by TCL Mobile amounted to HK\$2,380,000.

As TCL Electric is an indirect subsidiary of TCL Corp, the ultimate controlling shareholder of the Company, the transactions under the Lease Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the disclosure requirements as set out in Chapter 14A of the Listing Rules. Waiver from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 for two financial years ended 31 December 2005 has been applied for and granted by the Stock Exchange.

- b) On 31 August, 2004, Alcatel and T&A Mobile Phones Limited (formerly TCL & Alcatel Mobile Phones Limited) ("T&A"), entered into an operations agreement ("Operations Agreement"). Under the Operations Agreement, T&A agreed to appoint Alcatel or any designated member of Alcatel to be its non-exclusive sales and marketing agent to provide agency services on an engagement by engagement basis with respect to the sales of certain of T&A's mobile handset products in designated territories. The Operations Agreement is for an initial term of three years, and thereafter shall be automatically renewed for another three years. Any renewal of the Operations Agreement will be subject to the requirements of Chapter 14A of the Listing Rules.

During the period from 31 August 2004 to 18 July 2005, T&A was held by the Company and Alcatel as to 55% and 45% respectively, Alcatel was a connected person of the Company under the Listing Rules during that period. Accordingly, the transactions under the Operations Agreement during that period constituted connected transactions of the Company under Chapter 14A of the Listing Rules and were subject to the disclosure requirements as set out in Chapter 14A of the Listing Rules. Waiver from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 for three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

On 11 May 2005, the Company entered into the Framework Agreement with Alcatel Participations, under which the Company would acquire the then remaining 45% share capital of T&A. The said acquisition was completed on 18 July 2005. Upon completion of the said acquisition, Alcatel was no longer a connected person of the Company under the Listing Rules. During the period up to 18 July 2005, there was no agency fee paid by T&A.

- c) Pursuant to a master supply agreement ("Master Supply Agreement") dated 13 September 2004 entered between the Company and TCL Corp, its ultimate controlling shareholder, the Master Supply Agreement provides the following services:
  - i) purchase by the Group and the members of the Group of imported raw materials through TCL Corp, only if at the request of the PRC subsidiaries of the Company, and resale of such goods to the PRC subsidiaries;
  - ii) purchase by the Group of PRC manufactured raw materials from members of the TCL Group (other than the Group); and
  - iii) sale by the Group of mobile communication products to members of the TCL Group (other than the Group).

The Master Supply Agreement is for a period of three years with an option to renew the same on substantially the same terms by the parties' mutual agreement. Any renewal of the Master Supply Agreement will be subject to the requirements of Chapter 14A of the Listing Rules. During the year, the considerations paid and received by the Group are of HK\$1,366,255,000, HK\$92,219,000 and HK\$1,947,000 respectively under this agreement.

## REPORT OF THE DIRECTORS

As TCL Corp is the Company's ultimate controlling shareholder, the transactions under the Master Supply Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the disclosure and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. Waiver from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 and shareholders' approval requirements under Listing Rule 14A.48 for three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

- d) Pursuant to a brand promotion agreement ("Brand Promotion Agreement") dated 13 September 2004 entered between the Company and TCL Corp, the Group agreed to contribute a certain percentage of the Group's net sales (before value added tax) from the sale of mobile communication products bearing the "TCL" name and products sold for each of our financial quarters ending on 31 March, 30 June, 30 September and 31 December to the TCL Brand Common Fund. The Brand Promotion Agreement is for a term of three years from 1 January 2004. During the year, the Group contributed HK\$10,155,000 under this agreement.

As TCL Corp is the Company's ultimate controlling shareholder, the transactions under the Brand Promotion Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the disclosure and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. Waivers from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 and shareholders' approval requirements under Listing Rule 14A.48 for three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

- e) Pursuant to a transitional services agreement ("Transitional Services Agreement") entered between Alcatel Business Systems ("ABS"), a wholly-owned subsidiary of Alcatel, and T&A on 31 August 2004. ABS provides or causes its affiliates to provide T&A with administrative & management services to enable T&A and its subsidiaries (collectively the "Joint Venture Group") to independently operate the business previously operated by Alcatel mobile phone division. The Transitional Services Agreement is for a term commencing on the date of the agreement and will remain in force until the last termination date of the services provided thereunder (which is in any event not later than one and a half years from the date of the agreement).

As Alcatel and ABS were connected persons of the Company during the period from 31 August 2004 to 18 July 2005 by virtue of Alcatel's 45% shareholding in T&A, the transactions under Transitional Services Agreement during that period constituted connected transactions of the Company and were subject to the disclosure and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. Waivers from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 and shareholders' approval requirements under Listing Rule 14A.48 for three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

Upon completion of the Framework Agreement on 18 July 2005, ABS was no longer a connected person of the Company under the Listing Rules. During the period up to 18 July 2005, T&A paid the services fee of HK\$159,125,000 under this agreement.

- f) The Alcatel mobile phones division has in the past entered into service arrangement ("Alcatel Sales Support Arrangements") with members of Alcatel in different territories or countries for the provision of local sales and marketing services by relevant Alcatel members. In connection with the establishment of T&A, relevant Alcatel members have been providing, and will continue to provide the said services to T&A. The Alcatel Sales Support Arrangements have a term of one year and either will be automatically renewed for successive periods of one year unless and until terminated by either party or are expected to be renewed at the expiry of their terms.

As during the period from 31 August 2004 to 18 July 2005, Alcatel was a connected person of the Company by virtue of Alcatel's 45% shareholding in T&A, transactions under Alcatel Sales Support Arrangements during that period constituted connected transactions of the Company and were subject to the disclosure and shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. Waivers from the Stock Exchange from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 and shareholders' approval requirements under Listing Rule 14A.48 for three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

Upon completion of the Framework agreement on 18 July 2005, Alcatel was no longer a connected party of the Company. During the period up to 18 July 2005, T&A paid the services fee of HK\$37,573,000 under this agreement.

- g) Pursuant to a master manufacturing agreement (“Master Manufacturing Agreement”) dated 30 June 2005 entered between the Company and TCL Corp, its ultimate controlling shareholder, the Master Manufacturing Agreement provides manufacturing and / or value-added service to TCL Corp and its subsidiaries in respect of the products including but not limited to digital products, computer products, communication products, high frequency products and their relevant components which require Manufacturing Service. During the year, the Group received consideration of HK\$3,463,000 under this agreement.

As TCL Corp is the Company’s ultimate controlling shareholder, the transactions under the Master Manufacturing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the disclosure and shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules. Waiver from strict compliance with the relevant disclosure requirements under Listing Rule 14A.47 and shareholders’ approval requirements under Listing Rule 14A.48 for three financial years ending 29 June 2008 has been applied for and granted by the Stock Exchange.

- h) Pursuant to the framework agreement (“Framework Agreement”) with Alcatel Participations on 11 May 2005, under which the Company would acquire from Alcatel Participations the then remaining 45% of the share capital of T&A by way of Share Swap, the Company issued 141,375,000 shares which was equivalent to 5% of the then issued share capital of the Company, representing about 4.76% of the enlarged issued share capital of the Company immediately after the completion of the Share Swap.

During the period from 31 August 2004 to 18 July 2005, Alcatel was a connected person of the Company by virtue of Alcatel’s 45% shareholding in T&A, the Framework Agreement constituted a connected transaction for the Company and was subject to the disclosure and shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules. The Framework Agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 22 June 2005 and the said acquisition was completed on 18 July 2005.

- i) Pursuant to the subscription agreement (“Subscription Agreement”) entered into between the Company and TCL Corp on 11 May 2005, under which the Company has agreed to issue and TCL Corp has agreed to subscribe for, an aggregate of Eur20,000,000 principal amount (in its HK\$ equivalent of HK\$185,100,000) of 3% Convertible Notes. The transaction was completed on 29 July 2005. During the year, the Company paid an interest expenses of about HK\$2,373,000 under this agreement.

As TCL Corp is the Company’s ultimate controlling shareholder, the transactions under the Subscription Agreement constituted connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the disclosure and shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules. The Subscription Agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 22 June 2005 and the transaction was completed on 29 July 2005.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these 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 relevant 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 favourable 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 (“Board”) that the above 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 prospectus of the Company (where applicable); and
- (iv) are in accordance with the pricing policies of the Group where the transactions involved provision of goods or services by the Group.

## REPORT OF THE DIRECTORS

### POST BALANCE SHEET EVENTS

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

### CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 28 to 46 in this annual report.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a Code of Conduct regarding directors' securities transactions on the same terms as set out in the Model Code 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 2005.

### 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 established an audit committee 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 of the Company.

### AUDITORS

The accounts for the year ended 31 December 2005 have been audited by Ernst & Young, who shall retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming AGM.

ON BEHALF OF THE BOARD

**Li Dong Sheng**

*Chairman*

Hong Kong

27 April 2006