

The Group recognises the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. Bonus and other merit payments are linked with the performance of the Group and of the individuals as incentive to optimise performance. The Company has in place a share option scheme, pursuant to which share options may be granted to selected personnel of the Group, with a view to encouraging employees to work towards enhancing the value of the Group.

CONTINUING CONNECTED TRANSACTIONS

On 21 January 2006, the Group's principal operating subsidiary, Shenzhen Sang Fei Consumer Communications Company Limited ("Sang Fei") entered into a maintenance service agreement with Philips (China) Investment Company Limited ("Philips China"), whereby Sang Fei will provide mobile phone maintenance service to Philips China. The term of the agreement is for one year commencing from 1 January 2006. Upon expiry of the one-year term, the agreement may be extended for one year unless either party objects. The maintenance service fee is determined after arm's length negotiation between the parties with reference to the estimated costs incurred by Sang Fei for the provision of maintenance service plus a service charge which is determined in accordance with market rate. The annual cap for the aggregate consideration to be received by Sang Fei from Philips China in relation to the provision of maintenance service is RMB60 million for the year ending 31 December 2006.

As the Philips Group owns 25% interest in Sang Fei, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The Directors are of the opinion that it is in the best interest of the Company and the shareholders of the Company as a whole for Sang Fei to enter into the agreement. CEC, as the controlling shareholder of the Company, has approved the agreement, the continuing connected transactions contemplated thereunder and the related annual cap by way of written approval.

On 3 March 2006, Sang Fei entered into a plastic supply agreement with Shenzhen Sang Da Baili Electronics Co. Ltd. ("Baili"), whereby Sang Fei will purchase from Baili the plastic parts used for the manufacture of mobile phones. The agreement is for a term of 3 years commencing from 1 April 2006. The price of the plastic parts supplied by Baili to Sang Fei under the agreement is determined after arm's length negotiation with reference to market rate. The pricing terms are no less favourable than those offered to Sang Fei by other third party suppliers. The Company estimated that the aggregate amount of consideration to be paid by Sang Fei to Baili for the purchase of plastic parts for the nine months ending 31 December 2006, for the two financial years ending 31 December 2007 and 2008 and for the three months ending 31 March 2009 will be RMB43.5 million, RMB104.5 million, RMB120 million and RMB30 million respectively.

As Baili is an indirect non wholly-owned subsidiary of CEC, the transactions contemplated under the agreement constitute continuing connected transactions of the Company. The transactions were approved by the independent shareholders in the special general meeting held on 21 April 2006.

On 3 July 2006, Sang Fei entered into a tenancy agreement (“Tenancy Agreement”) with Great Wall Technology Company Limited (“Great Wall Technology”) and China Great Wall Computer (Shenzhen) Co., Ltd. (“Shenzhen Great Wall”). Pursuant to the Tenancy Agreement, Great Wall Technology and Shenzhen Great Wall agreed to lease to Sang Fei the factory premises situated at 4th Floor, Factory Building No.1, Great Wall Technology Building, No. 3 Kefa Road, Technology and Industrial Park, Nanshan District, Shenzhen, the People’s Republic of China for a term of three years commencing from 11 August 2006 and expiring on 10 August 2009 (both days inclusive), at a monthly rental of RMB204,296.75 and management fee of RMB32,103.77. In addition, Shenzhen Great Wall will charge Sang Fei for the electricity and water used by Sang Fei’s factory premises on an actual consumption basis at cost.

The State-owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China announced the restructuring proposal of China Great Wall Computer Group Company (“China Great Wall”) and CEC whereby China Great Wall has become a wholly-owned subsidiary of CEC. The restructuring has been approved on 18 August 2006. As a result of the restructuring, Great Wall Technology and Shenzhen Great Wall, being the subsidiaries of China Great Wall, has become associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)) of CEC and the transaction contemplated under the Tenancy Agreement constitutes continuing connected transaction of the Company under the Listing Rules. The annual cap as set for the aggregate rentals and management fees payable by Sang Fei under the Tenancy Agreement were RMB1.2 million for the five months ending 31 December 2006, RMB2.9 million for each of the two financial years ending 31 December 2007 and 2008 and RMB1.8 million for the eight months ending 31 August 2009, respectively. Details of the transaction were included in the announcement of the Company dated 15 September 2006.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of such options are disclosed under the paragraph “Share Option Scheme” below. Apart from those disclosed therein, as at 30 June 2006, none of the directors, the chief executive of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) that were recorded in the register maintained 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.