

# 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 2006.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries comprise 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 profit for the year ended 31 December 2006 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 107.

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 108. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL, CONVERTIBLE NOTES AND SHARE OPTIONS

Details of movements in the Company's share capital, convertible notes and share options during the year were disclosed in notes 32, 28 and 33 to the financial statements and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Directors' Report respectively.

## 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 the existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2006, no reserve of the Company as calculated in accordance with the Companies Law of the Cayman Islands was available for distribution to shareholders of the Company.

## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 23% of the total sales for the year and sales to the largest customer included therein amounted to 7%. Purchases from the Group's five largest suppliers accounted for 59% of the total purchases for the year and purchase from the largest supplier included therein amounted to 29%.

None of the directors of the Company or any of their associates or any 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 38(a) to the financial statements.

### DIRECTORS

The directors of the Company during the year were:

#### Executive directors:

Mr. LI Dongsheng	
Dr. LIU Fei	
Mr. YAN Yong	
Mr. DU Xiaopeng	(retired on 8 June 2006)
Dr. GUO Aiping	(retired on 8 June 2006)
Mr. WONG Toe Yeung	(retired on 8 June 2006)
Mr. YUAN Xin Cheng	(resigned on 8 June 2006)

#### Non-executive directors:

Mr. WANG Kangping	(appointed on 8 June 2006)
Dr. ZHAO Zhicheng	(appointed on 8 June 2006)

#### Independent non-executive directors:

Mr. LAU Siu Ki
Mr. SHI Cuiming
Mr. WANG Chongju

In accordance with article 87(1) of the Company's Articles of Association, Mr. Yan Yong, Mr. Wang Kangping and Dr. Zhao Zhicheng will retire by rotation at the conclusion of the forthcoming annual general meeting of the Company ("AGM"). Mr. Yan, being eligible, will offer himself for re-election whereas Mr. Wang and Dr. Zhao will not offer themselves for re-election at the AGM. Mr. Lau Siu Ki, Mr. Shi Cuiming and Mr. Wang Chongju will hold office until the conclusion of the AGM. Mr. Lau and Mr. Shi, being eligible, will offer themselves for re-election, but Mr. Wang will not offer himself for re-election at the AGM.

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 20 to 24 of the annual report.

## Report of the Directors

### DIRECTORS' SERVICE CONTRACTS

As at 31 December 2006, none of the directors had any existing or proposed service contract with the Company or any of its subsidiaries which will not expire or is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Particulars of the directors' remuneration and the five highest paid employees during the financial year are set out in note 11 to the financial statements.

### EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors are set out in "Emolument Policy and Long-Term Incentive Plans" of the Corporate Government Report.

### PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 5 to the financial statements.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements under the heading "Related Parties Transactions", no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

### MANAGEMENT CONTRACTS

Save as disclosed in note 38 to the financial statements under the heading "Related Parties 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, UNDERLYING SHARES AND DEBENTURES

At 31 December 2006, the interests and short positions of the directors and chief executive in the share, 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 (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

#### (A) Long positions in shares of the Company:

Name of director	Type of interest	Interest in shares held	Approximate percentage of the Company's issued share capital
Mr. LI Dongsheng	Beneficial owner	77,788,800	1.31%
Dr. LIU Fei	Beneficial owner	80,000	0.001%
Mr. WANG Kangping	Beneficial owner	80,000	0.001%

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**(B) Long positions in the underlying shares of the Company – share options:**

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

Name or category of participant	Number of share options						At 31 December 2006	Date of grant	Exercise period (both dates inclusive) (Notes 5, 6 and 7)	Exercise price (Note 4) HK\$	Closing price immediately before the date of grant HK\$
	At 1 January 2006	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Adjustment (Note 4)	Re-classified					
<b>Directors</b>											
Mr. LI Dongsheng	5,000,000	-	-	-	454,550	-	5,454,550	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41
	-	3,000,000	-	-	2,000,000	-	5,000,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22
	-	5,000,000	N/A	-	-	-	5,000,000	2006-06-30	2007-04-01 to 2009-12-31	0.232	0.228
	5,000,000	8,000,000	-	-	2,454,550	-	15,454,550				
Dr. LIU Fei	1,600,000	-	-	-	145,456	-	1,745,456	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41
	-	10,000,000	-	-	(2,100,000)	-	7,900,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22
	-	15,500,000	N/A	-	-	-	15,500,000	2006-06-30	2007-04-01 to 2009-12-31	0.232	0.228
	1,600,000	25,500,000	-	-	(1,954,544)	-	25,145,456				
Mr. YAN Yong	1,050,000	-	-	-	95,456	-	1,145,456	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41
	-	3,000,000	-	-	(2,000,000)	-	1,000,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22
	1,050,000	3,000,000	-	-	(1,904,544)	-	2,145,456				
Mr. WANG Kangping (Note 1)	-	-	-	-	-	1,527,274	1,527,274	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41
	-	1,500,000	N/A	-	-	-	1,500,000	2006-06-30	2007-04-01 to 2008-06-30	0.232	0.228
	-	1,500,000	-	-	-	1,527,274	3,027,274				
Dr. ZHAO Zhicheng (Note 1)	-	-	-	-	-	654,546	654,546	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41
	-	1,000,000	N/A	-	-	-	1,000,000	2006-06-30	2007-04-01 to 2008-06-30	0.232	0.228
	-	1,000,000	-	-	-	654,546	1,654,546				

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Name or category of participant	Number of share options							At 31 December 2006	Date of grant	Exercise period (both dates inclusive)	Exercise price (Note 4) HK\$	Closing price immediately before the date of grant HK\$
	At 1 January 2006	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	Adjustment (Note 4)	Re-classified						
Mr. LAU Siu Ki	300,000	-	-	-	27,273	-	327,273	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	800,000	-	-	-	-	800,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	300,000	800,000	-	-	27,273	-	1,127,273					
Mr. SHI Cuiming	300,000	-	-	-	27,273	-	327,273	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	800,000	-	-	-	-	800,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	300,000	800,000	-	-	27,273	-	1,127,273					
Mr. WANG Chongju	300,000	-	-	-	27,273	-	327,273	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	800,000	-	-	-	-	800,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	300,000	800,000	-	-	27,273	-	1,127,273					
Mr. DU Xiaopeng (Note 2)	3,200,000	-	-	(2,327,275)	290,912	(1,163,637)	-	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	6,000,000	-	(2,300,000)	(3,700,000)	-	-	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	3,200,000	6,000,000	-	(4,627,275)	(3,409,088)	(1,163,637)	-					
Dr. GUO Aiping (Note 2)	950,000	-	-	-	86,365	(1,036,365)	-	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	6,000,000	-	-	(2,450,000)	(3,550,000)	-	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	950,000	6,000,000	-	-	(2,363,635)	(4,586,365)	-					
Mr. WONG Toe Yeung (Note 2)	5,000,000	-	-	-	454,550	(5,454,550)	-	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	3,000,000	-	-	2,000,000	(5,000,000)	-	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	5,000,000	3,000,000	-	-	2,454,550	(10,454,550)	-					

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Name or category of participant	Number of share options							At 31 December 2006	Date of grant	Exercise period (both dates inclusive)	Exercise price	Closing price immediately before the date of grant
	At 1 January 2006	Granted during the year	Exercised during the year	Cancelled/Lapsed during the year	Adjustment	Re-classified	(Note 4)					
Mr. YUAN Xin Cheng (Note 3)	3,000,000	-	-	-	272,730	(3,272,730)	-	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	3,000,000	-	-	(2,000,000)	(1,000,000)	-	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	3,000,000	3,000,000	-	-	(1,727,270)	(4,272,730)	-					
<b>Sub-Total</b>	<b>20,700,000</b>	<b>59,400,000</b>	<b>-</b>	<b>(4,627,275)</b>	<b>(6,368,162)</b>	<b>(18,295,462)</b>	<b>50,809,101</b>					
<b>Employees</b>	101,625,000	-	-	(67,999,229)	4,923,345	(7,907,276)	30,641,840	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	96,562,672	1,319,386	6,460,613	8,782,328	(20,718,000)	92,406,999	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	-	174,500,000	N/A	(2,840,000)	-	(4,500,000)	167,160,000	2006-06-30	2007-04-01 to 2009-12-31	0.232	0.228	
<b>Sub-Total</b>	<b>101,625,000</b>	<b>271,062,672</b>	<b>1,319,386</b>	<b>(64,378,616)</b>	<b>13,705,673</b>	<b>(33,125,276)</b>	<b>290,208,839</b>					
<b>Those who have contributed or may contribute to the Group</b>	46,770,000	-	-	(13,675,466)	3,450,956	16,652,738	53,198,228	2005-05-31	2006-03-01 to 2008-11-30	0.3804	0.41	
	-	33,339,145	642,666	(20,912,666)	3,030,855	30,268,000	46,368,000	2006-01-16	2006-07-17 to 2008-01-15	0.2108	0.22	
	-	10,050,000	N/A	1,450,000	-	4,500,000	16,000,000	2006-06-30	2007-04-01 to 2009-12-31	0.232	0.228	
<b>Sub-Total</b>	<b>46,770,000</b>	<b>43,389,145</b>	<b>642,666</b>	<b>(33,138,132)</b>	<b>6,481,811</b>	<b>51,420,738</b>	<b>115,566,228</b>					
<b>Total</b>	<b>169,095,000</b>	<b>373,851,817</b>	<b>1,962,052</b>	<b>(102,144,023)</b>	<b>13,819,322</b>	<b>-</b>	<b>456,584,168</b>					

## Notes:

- Mr. Wang Kangping and Dr. Zhao Zhicheng were appointed as non-executive directors of the Company on 8 June 2006 and their share options under the share option scheme were re-classified under "Directors".
- Mr. Du Xiaopeng, Dr. Guo Aiping and Mr. Wong Toe Yeung retired as executive directors of the Company on 8 June 2006. The share options held by Mr. Du Xiaopeng and Dr. Guo Aiping under the share option scheme were re-classified under "Employees" and the share options held by Mr. Wong Toe Yeung were re-classified under "Those who have contributed or may contribute to the Group". As a result of Mr. Du Xiaopeng's retirement at the conclusion of the Company's annual general meeting on 8 June 2006, a total of 4,627,275 options held by Mr. Du lapsed during the year under review.

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3. Mr. Yuan Xin Cheng resigned as executive director on 8 June 2006 and his share options under the share option scheme were re-classified under "Those who have contributed or may contribute to the Group".
4. As a result of the completion of the open offer of the Company on 27 February 2006, the exercise prices for shares under each outstanding share option granted on 31 May 2005 and 16 January 2006 were adjusted in accordance with the terms of the Share Option Scheme to HK\$0.3804 and HK\$0.2108 respectively.
5. The share options granted on 31 May 2005 are exercisable from the commencement of the exercise periods until the expiry of the share options which is on 30 November 2008. 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.
6. The share options granted on 16 January 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 15 January 2008 (save for the share options granted to the French employees which will expire on 15 April 2010). One-third of such share options are exercisable after the expiry of 6 months from the date of grant, a further one-third is exercisable after the expiry of 12 months from the date of grant, and the remaining one-third is exercisable after the expiry of 18 months from the date of grant.
7. The share options granted on 30 June 2006 are exercisable from the commencement of the exercise period until the expiry of the share options which is on 31 December 2009 (save for the share options granted to the French employees which will expire on 30 September 2010 and the share options granted to certain grantees as mentioned below). Save for the share options granted to certain grantees including Mr. Wang Kangping and Dr. Zhao Zhicheng, which are all exercisable from 1 April 2007 to 30 June 2008, the share options have three exercisable periods: 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.
8. The fair value of the options granted in the current year totalled approximately HK\$20,811,000. The following assumptions were used to derive the fair value, using the Binomial Model:

### Options granted on 16 January 2006

		Modification on 30 June 2006		
		At Grant Date		
(i)	Exercise Period :	17 July 2006 to 15 January 2008	17 July 2006 to 15 January 2008	17 July 2006 to 15 April 2010
(ii)	Expected volatility :	50% per annum	50% per annum	55% per annum
(iii)	Estimated average life :	1.72 years	1.25 years	2.46 years
(iv)	Average risk-free interest rate :	3.66% per annum	4.48% per annum	4.56% per annum
(v)	Early exercise assumption :	When the share price is at least 175% of the exercise price	When the share price is at least 175% of the exercise price	When the share price is at least 210% of the exercise price
(vi)	Expected dividend yield :	1% per annum		
(vii)	Estimated rate of leaving service :	20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter		

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Options granted on 30 June 2006

		At Grant Date		
		(i) Exercise Period :	1 April 2007 to 31 December 2009	1 April 2007 to 30 September 2010
(ii) Expected volatility :	55% per annum	55% per annum	50% per annum	
(iii) Estimated average life :	2.87 years	3.22 years	1.64 years	
(iv) Average risk-free interest rate :	4.59% per annum	4.61% per annum	4.50% per annum	
(v) Early exercise assumption :	When the share price is at least 210% of the exercise price	When the share price is at least 210% of the exercise price	When the share price is at least 175% of the exercise price	
(vi) Expected dividend yield :	1% per annum			
(vii) Estimated rate of leaving service :	20% per annum for the first year after the Grant Date and a rate of 15% per annum thereafter			

The volatility rate of the share price of the Company was determined with reference to the movement of the Company's and its comparators' share prices.

Watson Wyatt Hong Kong Limited has been appointed to perform the valuation on the 3 batches of share options granted on 31 May 2005, 16 January 2006 and 30 June 2006.

**(C) Long positions in shares of associated corporations of the Company:**

Name of director	Name of associated corporation (Notes)	Type of interest	Interest in shares held	Approximate percentage of the relevant associated corporation's issued share capital	Notes
Mr. LI Dongsheng	TCL Multimedia	Beneficial owner	21,988,000	0.56%	2
Mr. WANG Kangping	TCL Multimedia	Beneficial owner	100,000	0.003%	2
Mr. YAN Yong	TCL Corp	Beneficial owner	2,109,596	0.08%	1

Notes:

1. TCL Corporation ("TCL Corp"), a company incorporated in the People's Republic of China, is the ultimate controlling shareholder of the Company.
2. TCL Multimedia Technology Holdings Limited ("TCL Multimedia"), a company controlled by TCL Corp, is a subsidiary of TCL Corp.



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**(D) Long positions in underlying shares of associated corporations of the Company – share options:**

<b>Name of director</b>	<b>Name of associated corporation</b>	<b>Type of interest</b>	<b>Interest in underlying shares held</b>	<b>Approximate percentage of the relevant associated corporation's issued share capital</b>
Mr. LI Dongsheng	TCL Multimedia	Beneficial owner	5,000,000	0.13%
Dr. LIU Fei	TCL Multimedia	Beneficial owner	400,000	0.01%
Mr. WANG Kangping	TCL Multimedia	Beneficial owner	1,400,000	0.04%
Mr. YAN Yong	TCL Multimedia	Beneficial owner	3,450,000	0.09%
Dr. ZHAO Zhicheng	TCL Multimedia	Beneficial owner	600,000	0.02%

Save as disclosed above, as at 31 December 2006, none of the directors or chief executive 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.

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

Save as disclosed above and in the "Share Option Scheme" disclosed in note 33 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, their respective 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 2006, the interests and short positions of the 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 (the "Register") were as follows:

<b>Name</b>	<b>Type of interest</b>	<b>Interest in shares and underlying shares held</b>	<b>Approximate percentage of the issued share capital</b>	<b>Notes</b>
TCL Corp	Interest of controlled corporation	3,245,496,960	54.64%	1
Mr. WONG Toe Yeung	Beneficial owner	587,089,550	9.88%	2, 3

Notes:

- I. Under the SFO, TCL Corp was deemed to be interested in 3,245,496,960 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly-owned subsidiary of TCL Corp.

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2. Mr. Wong Toe Yeung was interested in 587,089,550 shares and underlying shares of the Company which comprise: (a) 10,454,550 share options of the Company which he beneficially owned; and (b) 576,635,000 shares of the Company held by Mate Fair Group Limited ("Mate Fair", a company which is wholly-owned by him) in which he was deemed to be interested under the SFO.
3. According to the Register, as at 12 February 2007, Mate Fair transferred 576,635,000 shares of the Company to Norrell Overseas Invest Ltd., which runs a discretionary trust founded by Ms. Leung Lai Bing, the wife of Mr. Wong Toe Yeung.

Save as disclosed above, as at 31 December 2006, no persons, 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 shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) and continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) with TCL Corp (being the ultimate controlling shareholder of the Company) and its subsidiaries (which are regarded as connected persons as defined in the Listing Rules):

- a) On 30 June 2005, a master manufacturing agreement was entered into between the Company and TCL Corp, pursuant to which the Group would provide 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. Further details of the said master manufacturing agreement were set out in the announcement of the Company dated 4 July 2005.

During the year, the Group received nil consideration under this agreement.

- b) On 9 March 2006, an investment agreement was entered into between TCL Mobile Communication (Hohhot) Co., Ltd. ("TCL Mobile Communication, a wholly-owned subsidiary of the Company) and TCL Corp in relation to the setting up of a finance company ("the Finance Company"). The registered capital of the Finance Company would be RMB500 million (equivalent to approximately HK\$481 million) where the Company, TCL Corp and TCL Multimedia (an associate of TCL Corp) held approximately 4%, 62% and 14% of the registered capital of the Finance Company respectively. Further details of the transaction were set out in the announcement and the circular of the Company dated 9 March 2006 and 27 March 2006 respectively and are included in note 38(b) to the financial statements.
- c) On 31 July 2006, a lease agreement was entered into between TCL Tian Yi Mobile Communication (Shenzhen) Company Limited ("T&A Shenzhen", a wholly-owned subsidiary of the Company) and Shenzhen TCL Central R&D Co., Ltd. ("Industrial Institute", a subsidiary of TCL Corp), pursuant to which premises at Floors 8 and 15 of Block B of TCL Tower, Shenzhen, the PRC were leased to the Company for office's use. The term of the said lease agreement is from 1 July 2006 to 31 December 2008. Further details of the said lease agreement were set out in the announcement of the Company dated 31 July 2006.

During the year, the total rental paid by T&A Shenzhen amounted to HK\$2,832,000.

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- d) On 27 October 2006, a financial service framework agreement was entered into between the Company, TCL Corp and the Finance Company, pursuant to which the Company may from time to time utilize the financial services provided by the Finance Company including deposit services, finance services and other financial services. Further details of the said financial service framework agreement were set out in the announcements of the Company dated 9 March 2006 and 27 October 2006 and the circular of the Company dated 27 March 2006.

The said financial services framework agreement and the transactions of deposit services thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 13 April 2006.

During the year, the maximum outstanding balance of deposits (including interest receivable in respect of the deposits) due to the Finance Company was HK\$119,376,000 and no fee or commissions in respect of other financial services has been paid by the Group.

- e) On 13 September 2004, a brand promotion agreement was entered into between the Company and TCL Corp, pursuant to which 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.

On 29 December 2006, the abovementioned brand promotion agreement was renewed on substantially the same terms (except some changes being made to the calculation of the contribution) for a period of thirty-six calendar months effective on 1 March 2007. Further details of the said brand promotion agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

The renewed brand promotion agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 15 February 2007.

During the year, the Group contributed HK\$4,744,000 under the agreement.

- f) On 13 September 2004, a master supply agreement was entered into between the Company and TCL Corp regarding the following:
- 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).

On 29 December 2006, the abovementioned master supply agreement was renewed on substantially the same terms for a period of three years effective on 1 March 2007. Further details of the said master supply agreement were set out in the announcement and circular of the Company dated 29 December 2006 and 22 January 2007 respectively.

The renewed master supply agreement and the transactions thereunder were duly approved by the shareholders of the Company in an extraordinary general meeting held on 15 February 2007.

## Report of the Directors

During the year, the considerations paid and received by the Group for the abovementioned services (i), (ii) and (iii) are of HK\$1,382,007,000, HK\$65,274,000 and HK\$2,391,000 respectively under the agreement.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 38 to the financial statements 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) 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 (the "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 or relevant announcement 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.

### POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

### CORPORATE GOVERNANCE

Details of the Group's governance practices can be found in the Corporate Governance Report contained on pages 25 to 32 in this annual report.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry have been made with all directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year under review.

### 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.

## Report of the Directors

### **AUDIT COMMITTEE**

The audited financial statements have been reviewed by the Audit Committee established in compliance with Rule 3.21 of the Listing Rules and the relevant code provision of the Code of Corporate Governance Practices as set out in Appendix I4 to the Listing Rules. The Audit Committee comprises three independent non-executive directors of the Company, Mr. Lau Siu Ki (Chairman), Mr. Shi Cuiming and Mr. Wang Chongju.

### **AUDITORS**

The accounts for the year ended 31 December 2006 have been audited by Messrs Ernst & Young, who shall retire and, being eligible, shall offer themselves for reappointment as auditors of the Company at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

### **Li Dongsheng**

*Chairman*

Hong Kong  
27 April 2007