

Report of the Directors

The directors are pleased to present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 21 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss 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 43 to 127.

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

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 128. 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 Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 40 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 41 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves, including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$1,022,881,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling HK\$1,511,000.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	3%
– the five largest suppliers combined	12%

Sales

– the largest customer	12%
– the five largest customers combined	28%

None of the directors of the Company, their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive directors:

Li Dongsheng (*Chairman*)
 Lu Zhongli
 Wang Kangping (appointed on 8 June 2006)
 Shi Wanwen (appointed on 30 June 2006)
 Yuan Bing (appointed on 12 October 2006)
 Zhao Zhongyao (retired on 8 June 2006)
 Hu Qiusheng (resigned on 30 June 2006)
 Yan Yong, Vincent (resigned on 20 July 2006)

Non-executive directors:

Albert Thomas da Rosa, Junior
 Alastair Kenneth Ruskin Campbell (re-designated as non-executive director on 20 July 2006 and resigned on 20 March 2007)
 Didier Trutt (re-designated as non-executive director on 20 July 2006 and resigned on 20 March 2007)

Independent non-executive directors:

Tang Guliang
 Wang Bing
 Robert Maarten Westerhof (appointed on 8 September 2006)
 Hon Fongming, Perry (retired on 8 June 2006)

In accordance with article 116 of the Company's articles of association, Mr. Albert Thomas da Rosa, Junior; Mr. Tang Guliang and Mr. Wang Bing will retire by rotation and will be eligible for re-election at the forthcoming annual general meeting. Mr. Albert Thomas da Rosa, Junior and Mr. Tang Guliang will but Mr. Wang Bing will not offer themselves for re-election at the forthcoming annual general meeting.

After the retirement of Mr. Wang, there will remain only two independent non-executive directors in the Board, below the minimum number of three independent non-executive directors as required under Rule 3.10(1) of the Listing Rules. The Board is in the process of identifying a suitable candidate to act as an independent non-executive director to fulfil the said Listing Rule requirement.

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

Report of the Directors

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 10 and 11 to the financial statements, respectively.

EMOLUMENT POLICY AND LONG-TERM INCENTIVE SCHEMES

Please refer to the Corporate Governance Report contained on pages 25 to 26 of this annual report for the Group's emolument policy and long-term incentive schemes, as well as the basis for determining the emolument payable to the directors.

PENSION SCHEMES

Particulars of the Group's pension schemes are set out in note 39 to the financial statements.

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 16 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

(i) Long positions in shares of the Company

Directors	Capacity	Number of shares held	Percentage of issued share capital of the Company
Li Dongsheng	Beneficial owner	21,988,000	0.56%
Wang Kangping	Beneficial owner	100,000	0.003%

Report of the Directors

(ii) Long positions in underlying shares of the Company – share options

Directors	Capacity	Number of underlying shares held	Percentage of issued share capital of the Company
Li Dongsheng	Beneficial owner	5,000,000	0.13%
Lu Zhongli	Beneficial owner	2,500,000	0.06%
Shi Wanwen	Beneficial owner	2,600,000	0.07%
Wang Kangping	Beneficial owner	1,400,000	0.04%
Yuan Bing	Beneficial owner	330,000	0.008%
Albert Thomas da Rosa, Junior	Beneficial owner	300,000	0.008%
Tang Guliang	Beneficial owner	300,000	0.008%
Wang Bing	Beneficial owner	300,000	0.008%

(iii) Long positions in shares of associated corporations of the Company

Directors	Name of associated corporation (Notes)	Capacity	Number of shares held	Percentage of issued share capital in associated corporation
Li Dongsheng	TCL Corporation	Beneficial owner	121,953,000	4.72%
Li Dongsheng	TCL Communication	Beneficial owner	77,788,800	1.31%
Lu Zhongli	TCL Corporation	Beneficial owner	19,888,987	0.77%
Shi Wanwen	TCL Corporation	Beneficial owner	2,283,465	0.09%
Yuan Bing	TCL Communication	Beneficial owner	2,116,000	0.04%
Wang Kangping	TCL Communication	Beneficial owner	80,000	0.001%

Notes:

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

Report of the Directors

(iv) Long positions in underlying shares of associated corporations of the Company – share options

Directors	Name of associated corporation	Capacity	Number of underlying shares held	Percentage of issued share capital in associated corporation
Li Dongsheng	TCL Communication	Beneficial owner	15,454,550	0.26%
Lu Zhongli	TCL Communication	Beneficial owner	3,727,275	0.06%
Wang Kangping	TCL Communication	Beneficial owner	3,027,274	0.05%
Yuan Bing	TCL Communication	Beneficial owner	1,436,364	0.02%
Shi Wanwen	TCL Communication	Beneficial owner	654,546	0.01%

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and note 40 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or his/ her spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Details of the share options granted during the year are set out in note 40 to the financial statements.

The directors have estimated the values of the share options granted during the year, calculated using the binomial option pricing model as at the date of grant of the options. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS 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 the 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:

Shareholders	Capacity	Number of shares held (Notes)	Percentage of issued share capital of the Company
TCL Corporation	Interest of controlled corporation	1,512,121,289	38.74%
Thomson S.A.	Interest of controlled corporation	753,888,095	19.32%

Notes:

- (a) TCL Corporation is deemed to be interested in 1,512,121,289 shares held by T.C.L. Industries Holdings (H.K.) Ltd., ("T.C.L. Industries"), its direct wholly owned subsidiary, for the purpose of the SFO.
- (b) Thomson S.A. is deemed to be interested in 67,610,864 shares owned by Thomson Asia Pacific Investments Pte. Ltd., its wholly owned subsidiary, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2006, no person, other than the directors and chief executive of the Company whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had notified the Company of an interest or short position in the 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, the Group entered into a number of connected transactions and continuing connected transactions with the following connected persons (as defined in the Listing Rules), namely:

- (1) TCL Corporation (being the ultimate controlling shareholder of the Company) and its subsidiaries (being an associate of TCL Corporation) (collectively, the "TCL Group"); and
- (2) Thomson S.A. ("Thomson") (being a substantial shareholder of the Company) and its subsidiaries (being an associate of Thomson) (collectively, the "Thomson Group").

The Group entered into the following connected transactions (other than connected transactions that are exempted under Rule 14A.31 of the Listing Rules) during the year ended 31 December 2006:

- (a) On 9 March 2006, TCL King Electrical Appliances (Huhehaote) Company Limited ("TCL King Huhehaote"), an indirect wholly-owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with TCL Corporation in relation to the setting up of a finance company in the PRC – TCL Finance Co., Ltd. ("TCL Finance"). Pursuant to the Investment Agreement, TCL King Huhehaote contributed RMB70 million as capital contribution to TCL Finance, representing 14% of the registered capital of TCL Finance. TCL Finance was established on 17 October 2006 and further details of this transaction were set out in the Company's announcement dated 9 March 2006 and 27 October 2006.

Report of the Directors

- (b) On 4 July 2005, the Company and TCL International Electronics (BVI) Limited ("TCLIE"), a direct wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with TCL Corporation for the acquisition of the remaining 49% equity interest in TCL Electrical Appliance Sales Co., Ltd. ("Sales Co.") owned by TCL Corporation at a consideration of Euro6.5 million (equivalent to approximately HK\$63 million). This acquisition was completed on 10 May 2006 and Sales Co. became a wholly-owned subsidiary of the Group. Further details of this acquisition were set out in the Company's announcement dated 5 July 2005.
- (c) On 21 June 2006, the Company and T.C.L. Industries, a controlling shareholder of the Company, entered into a sale and purchase agreement pursuant to which the Company agreed to sell, and to procure its relevant subsidiaries to sell, and T.C.L. Industries agreed to purchase (i) the entire issued share capital of TCL Computer Technology (BVI) Co., Ltd., (ii) the entire issued share capital of TCL Education Web Limited and (iii) the 65% equity interest in Shenzhen TCL Central R&D Co., Ltd. for a consideration of HK\$374 million. The resolution for approving the disposal was passed at the extraordinary general meeting of the Company on 7 August 2006 and the disposal was completed on 8 September 2006. Further details of the disposal are set out in the Company's announcement dated 23 June 2006 and circular dated 9 November 2006.
- (d) On 12 October 2006, the Company, TTE Corporation ("TTE"), a wholly-owned subsidiary of the Company, and TTE Europe SAS ("TTE Europe"), a wholly-owned subsidiary of TTE (collectively the "TCL Parties"), entered into the term sheet (the "Settlement Term Sheet") with Thomson and certain of its subsidiaries (collectively the "Thomson Parties") regarding the resolution of the Group's loss-making European operation (the "EU Business"), which was mainly conducted by TTE Europe, whereby the TCL Parties and the Thomson Parties have agreed to certain reciprocal concessions to alleviate the financial difficulties of the EU Business and pave the way for an amicable winding-down of this loss-making EU Business.

Details of the precise undertakings of each of the relevant parties in respect of the terms of the Settlement Term Sheet were further formalised and set forth in the Master Resolving and Settlement Agreement (the "Master Agreement") dated 13 February 2007 entered into between the TCL Parties and the Thomson Parties. Further details of these arrangements are detailed in note 47 to the financial statements.

The Group entered into the following continuing connected transactions (other than continuing connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2006:

- (a) Pursuant to the Master Overseas Supply Agreement dated 29 December 2004 entered into between the Company and TCL Corporation in connection with the purchase of electronic or electrical products from TCL Corporation and its subsidiaries (the "Supplier Group") for the supply or sale to a place in any territories other than the PRC, the Group purchased finished goods from the Supplier Group amounting to HK\$53,705,000 during the year.
- (b) Pursuant to the Master Subcontracting Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group paid subcontracting fees amounting to HK\$12,554,000 during the year.
- (c) Pursuant to the Television Patent License Agreement dated 30 July 2004 entered into between TTE and Thomson Licensing S.A. ("TLSA") (a wholly-owned subsidiary of Thomson) under which TLSA granted to TTE and its subsidiaries license, right and privilege under all of the patents owned, controlled and/or acquired by TLSA to make, lease and sell analog colour television receivers, the Group paid to TLSA royalties amounting to HK\$15,118,000 during the year.
- (d) Pursuant to the Receivables Purchase and Sales Agreement dated 30 July 2004 entered into between TTE and Thomson, Thomson purchased, on a rolling basis, up to a maximum outstanding amount of Euro100 million of the trade accounts receivable of TTE and its relevant subsidiaries. Such outstanding amount should, from the first anniversary of closing of the Combination Agreement on 30 July 2004, be reduced by 1/12 at the end of each month so that it shall, at the second anniversary of closing, be zero, and the agreement shall then be automatically terminated. At the year end, there was no outstanding amount under this agreement.

Report of the Directors

- (e) Pursuant to the Thomson Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and Thomson under which TTE appointed Thomson as one of the only two preferred suppliers for certain components and should give priority to Thomson for the supply of the components, the Group purchased such components from Thomson amounting to HK\$97,334,000 during the year.
- (f) TTE entered into the TCL Trademark License Agreement dated 30 July 2004 with TCL Corporation under which TCL Corporation has agreed to grant to TTE and its subsidiaries for a 20-year term an exclusive (subject to certain limited exceptions which are related to existing obligation or businesses of TCL Corporation) non-sublicensable and non-transferable license to use certain of its registered trademarks including "TCL" and "Rowa" for the manufacture and sale of TV products. No royalties shall be payable by TTE to TCL Corporation prior to the second anniversary of the closing date of the Combination Agreement entered into by the Company with TCL Corporation and Thomson on 30 July 2004.

During the year, no payment has been made by the Group to TCL Corporation as royalties and HK\$59,106,000 was paid by the Group to TCL Corporation as reimbursement of branding advertising costs.

- (g) Pursuant to the People's Republic of China Sales and Marketing Agency Agreement dated 30 July 2004 entered into between TTE and Sales Co. (a company which was owned as to 49% by TCL Corporation before closing of the acquisition of 49% interests in the Sales Co. by the Group in May 2006) under which TTE appointed Sales Co. as (i) an exclusive sales and marketing agent to provide a whole range of sales and marketing services (including after-sales and logistics services) with respect to all TV end-products of TTE sold or designated to be sold in the PRC, and (ii) an exclusive distributor to purchase all TV end-products for resale in the PRC, the Group paid services fees and costs reimbursement of HK\$266,924,000 to Sales Co. during the year.
- (h) Pursuant to the TCL Preferred Supplier Agreement dated 30 July 2004 entered into between TTE and TCL Corporation under which TTE appointed TCL Group as one of the only two preferred suppliers for certain components and should give priority to TCL Group for the supply of the components, the Group paid to TCL Group HK\$466,402,000 for the purchases of the components.
- (i) On 1 September 2005, TTE entered into the Amended and Restated Agreement (Angers) ("Amended Angers Agreement") under which Thomson will act as a subcontractor to TTE for the manufacturing of TV products, sub-assemblies and modules and supply of rework services at the Angers Factory. Pursuant to the Amended Angers Agreement, TTE will (i) purchase subcontracting service from Thomson, for not less than a minimum quantity, at an hourly rate effectively consistent with the production cost structure currently in use at TTE's European factory operations which were previously transferred to TTE from Thomson; and (ii) pay to Thomson a total of Euro20 million over 5 years from 2005 to 2009 to cover reorganization costs of the Angers Factory.

During the year, HK\$162,788,000 was paid by the Group to Thomson for the subcontracting services and no reorganization cost was paid under the Amended Angers Agreement.

- (j) TTE entered into the Thomson Trademark License Agreement dated 30 July 2004 with Thomson under which Thomson granted to TTE and certain of its subsidiaries for 20-year term non-sub-licensable and non-transferable license to use certain of its registered trademarks including "Thomson", "RCA", "Scenium" and "LiFE" ("Thomson A Brands") and "SABA" ("Thomson B Brand") for the manufacture and sale of TV products in certain countries in the North America, Europe and other regions. No base royalties should be payable by TTE to Thomson prior to the end of the second anniversary of the closing of the Combination Agreement.

The agreement was amended on 1 September 2005, with additional royalties at a rate of 0.4% and 0.2% of the net sales of the TV products for Thomson A Brands and Thomson B Brand respectively being charged by Thomson to TTE, notwithstanding the waiver of the base royalties mentioned above.

During the year, royalty payment and branding advertising costs reimbursement amounting to HK\$43,631,000 and HK\$40,357,000 respectively were made by the Group to Thomson.

Report of the Directors

- (k) TTE entered into the North America Service Agreement on 1 September 2005 with Thomson Inc. (a wholly-owned subsidiary of Thomson) under which TTE appointed Thomson Inc. as its service provider to provide after-sales, logistics and other services in the U.S. and Canada with respect to TV and related products of the TTE Group sold or designed to be sold in the North America. During the year, HK\$49,476,000 was paid by the Group to Thomson for all the cost and expenses incurred by Thomson for provision of the services.
- (l) TTE Technology Inc. entered into the Laboratory Services Agreement on 1 September 2005 with Thomson Inc. under which TTE appointed Thomson Inc. as an independent contractor on a non-exclusive basis, to provide the laboratory services for TV and related products being developed by or for the TTE research and development laboratory located in North America. During the year, HK\$3,255,000 was paid by the Group to Thomson as service fee.
- (m) TTE entered into the Europe After Sales Services Agreement on 1 September 2005 with Thomson Sales Europe (a wholly owned subsidiary of Thomson) under which TTE appointed Thomson as its exclusive service provider to provide after-sales services with respect to TV and related products of the TTE Group sold or designed to be sold in certain European countries. During the year, no payment was made by the Group to Thomson for providing the services under this agreement.
- (n) TTE entered into the Logistics Management Agreement on 1 September 2005 with Thomson Sales Europe under which TTE provided to Thomson logistics management services with respect to audio and/or video products (other than TVs) and other products of Thomson sold or designed to be sold in Europe and some other countries. During the year, HK\$1,963,000 was paid by Thomson to the Group as service fee.
- (o) On 1 September 2005, TTE entered into the TTE Styling Services Agreement with Thomson under which Thomson engaged the TTE Group as an independent contractor, on a non-exclusive basis, to provide to the Thomson Group the styling services for and with respect to Thomson's products. During the year, HK\$2,873,000 was paid by Thomson to the Group as service fee.
- (p) Pursuant to the Master Sourcing Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) sold overseas materials to TCL Group amounting to HK\$607,311,000; (ii) purchased overseas materials from TCL Group amounting to HK\$902,937,000 during the year.
- (q) Pursuant to the Master Supply Agreement dated 27 February 2006 entered into between the Company and TCL Corporation, the Group (i) purchased goods produced or manufactured in the PRC from the TCL Group amounting to HK\$43,997,000; (ii) sold goods to TCL Group amounting to HK\$808,000 during the year.
- (r) Pursuant to the Lease Framework Agreement dated 21 June 2006 entered into between the Company and Industrial Institute, an associate of TCL Corporation, the Group paid rental expenses to TCL Group amounting to HK\$13,111,000 during the year.
- (s) Pursuant to the Financial Services Framework Agreement dated 27 October 2006 entered into between the Company, TCL Corporation and the Finance Company, the Group paid fees and commissions under the Other Financial Services amounting to HK\$587,000 during the year. The maximum outstanding balances of deposits placed by the Group with the Finance Company during the year was HK\$62,056,000.
- (t) Rental income received by the Group from TCL Group as set out in the Company's announcement dated 31 July 2006 amounting to HK\$4,033,000 during the year.

The directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Report of the Directors

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

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

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

POST BALANCE SHEET EVENT

Details of the significant post balance sheet events of the Group are set out in note 49 to the financial statements.

CORPORATE GOVERNANCE

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 21 to 29 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. 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 2006.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

AUDITORS

Messrs. Ernst & Young will retire and, being eligible, will 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
31 May 2007