

Report of the Directors

The directors of TCL Communication Technology Holdings Limited (the "Company") are pleased to present their first report and the audited financial statements of the Company for the period from 26 February 2004 (being the date of incorporation) to 31 December 2004 and the Group for the year ended 31 December 2004.

Group reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 26 February 2004 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the wholly-owned subsidiaries now comprising the Group. Further details of the Group Reorganisation and the subsidiaries acquired thereto are set out in the listing document of the Company dated 20 September 2004 (the "Listing Document") and notes 1 and 16 to the financial statements.

The shares of the Company were listed on the Main Board of the Stock Exchange on 27 September 2004 by way of introduction.

The financial information of the Group comprising consolidated profit and loss account, balance sheet, statement of changes in equity and cash flow statement are included in this annual report and have been prepared on the basis that the wholly-owned subsidiaries now comprising the Group have been in existence throughout the period presented, further details of which are set out in note 1 to the financial statements. The same basis has also been applied for presenting the information referring to the Group in this report of the directors.

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 result for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 87.

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 four financial years, as extracted from the audited financial statements and the Listing Document and reclassified as appropriate, is set out on page 88. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

Report of the Directors

Share capital and share options

The movements in the Company's authorised or issued share capital prior to its listing are set out in Appendix IX of the Listing Document. Details of further movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 27 to the financial statements. No share option was granted during the year, the details of the Company's share option scheme was disclosed in note 28 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 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$606,973,000. In addition, the Company's share premium account, in the amount of HK\$1,093,475,000, 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.

Charitable contributions

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

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 22% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 10% of the total purchases for the year.

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 and five largest suppliers.

Directors

The directors of the Company since 26 February 2004 (being the date of incorporation) and up to the date of this report were:

Executive directors:

Mr. LI Dong Sheng	(appointed on 5 March 2004)
Mr. WAN Mingjian	(appointed on 5 March 2004 but will retire and not offer for re-election at the forthcoming annual general meeting of the Company)
Mr. WONG Toe Yeung	(appointed on 5 March 2004)
Mr. GUO Aiping, George	(appointed on 24 March 2004)
Mr. DU Xiaopeng, Simon	(appointed on 24 March 2004)
Mr. YAN Yong, Vincent	(appointed on 24 March 2004)
Mr. YUAN Xin Cheng	(appointed on 19 December 2004)

Independent non-executive directors:

Mr. SHI Cuiming	(appointed on 23 April 2004)
Mr. WANG Chongju	(appointed on 23 April 2004)
Mr. LAU Siu Ki, Kevin	(appointed on 23 April 2004)

In accordance with article 87(1) of the Company's articles of association, Mr. Wong Toe Yeung, Mr. Wan Mingjian and Mr. Yan Yong, Vincent will retire by rotation and be eligible for re-election at the forthcoming annual general meeting of the Company. Mr. Wong Toe Yeung and Mr. Yan Yong, Vincent will but Mr. Wan Mingjian will not offer themselves for re-election. Mr. Yuan Xin Cheng, Mr. Shi Cuiming, Mr. Wang Chongju and Mr. Lau Siu Ki, Kevin will hold office until the conclusion of the forthcoming of the annual general meeting 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 (save for Mr. Yuan Xin Cheng) has a service contract with the Company for a term of three years commencing from 1 September 2004.

Save as disclosed above, 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.

Report of the Directors

Directors' interests in contracts

Save as disclosed in note 34 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 "Connected 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' interests and short positions in shares and underlying shares

At 31 December 2004, 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	Number of shares of the Company held	Type of interest	Percentage of the Company's issued share capital
Mr. WONG Toe Yeung	401,505,000 (Note)	Interest of controlled corporation	14.2%
Mr. LI Dong Sheng	18,080,800	Beneficial owner	0.64%
Mr. GUO Aiping	26,400	Beneficial owner	0.001%

Note: Mr. WONG Toe Yeung was deemed to be interested in the 118,755,000 shares of the Company held by Mate Fair Group Limited, a company which is wholly owned by him and the 282,750,000 shares of the Company held by Cheerful Asset Investments Limited ("Cheerful Asset") in which he holds 35% interest through Total Harvest Ltd. ("Total Harvest"), a company which is wholly owned by him.

Long positions in shares of associated corporations:

Name of director	Name of associated corporation (Notes)	Number of shares held	Type of interest	Percentage of the relevant associated corporation's issued share capital
Mr. LI Dong Sheng	TCL Corp	144,521,730	Beneficial owner	5.59%
Mr. LI Dong Sheng	TCL Multimedia	28,232,000	Beneficial owner	1.02%
Mr. YUAN Xin Cheng	TCL Corp	24,791,527	Beneficial owner	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 known as TCL International Holdings Limited), a company controlled by TCL Corp, is the fellow subsidiary of the Company.

Options outstanding to subscribe for shares of associated corporations:

Name of director	Name of associated corporation	Number of shares involved	Type of interest	Percentage of the relevant associated corporation's issued share capital
Mr. DU Xiaopeng	TCL Multimedia	100,000	Beneficial owner	0.004%
Mr. GUO Aiping	TCL Multimedia	68,000	Beneficial owner	0.002%
Mr. YAN Yong	TCL Multimedia	68,000	Beneficial owner	0.002%

Save as disclosed above, as at 31 December 2004, none of the directors had 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 for Securities Transactions by Directors of Listed Issuers.

Directors' rights to acquire shares or debentures

Save as disclosed above and in the share option scheme disclosures in note 28 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.

Report of the Directors

Substantial shareholders' interests in shares and underlying shares

At 31 December 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Number of shares held	Type of interest	Percentage of the Company's issued share capital
TCL Corp	1,622,748,516 (Note (a))	Interest of controlled corporation	57.4%
Cheerful Asset	282,750,000	Beneficial owner	10.0%
Total Harvest	282,750,000 (Note (b))	Interest of controlled corporation	10.0%
Mr. WONG Ngok Chung	282,750,000 (Note (c))	Interest of controlled corporation	10.0%
Nam Tai	254,475,000 (Note (d))	Interest of controlled corporation	9.0%

Notes:

- (a) TCL Corp was deemed to be interested in the 1,622,748,516 shares of the Company held by T.C.L. Industries Holdings (H.K.) Limited, a direct wholly owned subsidiary of TCL Corp.
- (b) Total Harvest was deemed to be interested in the 282,750,000 shares of the Company held by Cheerful Asset, a company in which Total Harvest has a 35% interest.
- (c) Mr. WONG Ngok Chung was deemed to be interested in the 282,750,000 shares of the Company held by Cheerful Asset, a company in which he has a 45% interest through Grand Mobile Limited and Wan Yuen International Investments Limited.
- (d) Nam Tai Electronics, Inc. ("Nam Tai") was deemed to be interested in the 254,475,000 shares of the Company held by Jasper Ace Limited, a company which is wholly owned by Nam Tai.

Save as disclosed above, as at 31 December 2004, no persons, other than the directors of the Company, whose interests are set out in the section "Directors' interests 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

During the year, no share options were granted to the directors or employees of the Company under the share option scheme of the Company.

Connected transactions

- (a) On 15 April 2004, 14 June 2004, 9 September 2004 and 19 October 2004, 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, but upon expiry of such term if TCL Electric offers the same premises for leases, TCL Mobile has the priority right to enter into a new lease under the same terms and conditions. During the year, the total rental paid by TCL Mobile amounted to HK\$2,625,000.

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 ending 31 December 2005 has been applied for and granted by the Stock Exchange.

- (b) On 31 August 2004, Alcatel and 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 year, the total agency fee paid by T&A amounted to HK\$1,960,000.

As T&A is held by the Company and Alcatel as to 55% and 45% respectively, Alcatel is a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Operations Agreement 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 three financial years ending 31 December 2006 has been applied for and granted by the Stock Exchange.

- (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 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 by the Group are of HK\$2,856,869,000, HK\$144,673,000 and HK\$19,822,000 respectively under this agreement.

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.

Report of the Directors

- (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 the four 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\$27,816,000 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. 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.

- (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). During the year, T&A paid the services fee of HK\$83,802,000 under this agreement.

As Alcatel and ABS are connected persons of the Company by virtue of Alcatel’s 45% shareholding in T&A, the transactions under Transitional Services Agreement constitute connected transactions of the Company 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.

- (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. During the year, T&A paid the services fee of HK\$16,703,000 under this arrangement.

As Alcatel is a connected person of the Company by virtue of Alcatel’s 45% shareholding in T&A, transactions under Alcatel Sales Support Arrangements constitute connected transactions of the Company and are subject to the disclosure and shareholders’ approval requirements as set out in Chapter 14A of the Listing Rules. Waiver 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.

The independent non-executive directors of the Company have confirmed that the above 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 Listing Document (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

No significant events occurred after the post balance sheet date.

Code of Best Practice

In the opinion of the directors, throughout the accounting period covered by the annual report, the Company complied with the Code of Best Practice as then set out in Appendix 14 of the Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force during the period.

Model Code for Securities Transactions by Directors

The Board has adopted a new code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("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 2004.

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 the three independent non-executive directors of the Company and has reviewed the annual results for the year ended 31 December 2004.

Report of the Directors

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

LI Dong Sheng

Chairman

Hong Kong

16 April 2005